Faculty Working Papers

SHIFTING SOURCES OF FINANCING EDUCATION AND THE TAXPAYER REVOLT

John F. Due, Professor, Department of Economics

#565

College of Commerce and Business Administration
University of Illinois at Urbana-Champaign

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Summary:

The purpose of the paper is to examine shifting sources of the financing of education, the origins of the taxpayer revolt, and its significance for education finance. There has occurred a marked shift of financing education from local to state levels, but with a wide variation among states. A major effect has been to reduce the relative reliance upon property taxes. On the whole, state-local tax burdens are slightly regressive, but not markedly so, by income group, but the variation among states is great. The overall pattern has tended to become less regressive. The taxpayer revolt is the product of a number of forces, but not primarily increased tax burdens, which have not been rising overall, in recent years, relative to GNP. Among primary sources of revolt appear to be the dislike of inflation, a dissatisfaction with many regulatory measures and limits beyong which persons are unwilling to go in providing welfare assistance and protection of the rights of minorities. California experience suggests that education was not the primary target of the protest. But nevertheless, education, depending on the property tax for nearly half of its support, is almost certain to suffer.

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# SHIFTING SOURCES OF FINANCING EDUCATION AND THE TAXPAYER REVOLT.*

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The financing of education, perhaps more than any one governmental activity, is confronted with a major hazard in the form of what we have come to call the "taxpayer revolt". A question of major importance is: what has caused this "revolt?" What implications does it have for education? As a preliminary step it is necessary to review the shifts that have occurred over the years in the financing of education and the major sources of state tax revenue--the growing source of education finance.

## PART I. CHANGING PATTERNS OF STATE AND LOCAL FINANCE

### Changing Sources of School Finance

Table 1 shows the very substantial shift that has occurred over the last four decades from local to state financing. In the 1930 fiscal year, only 17 percent of the cost of financing education came from state sources, 83 percent from local. By 1941-42 the local share had fallen to 67%, by 1961-62, 57%, in recent years to 48 percent, the state share rising to 44% (the remaining 8% being Federal). The shift has been slow and steady, propelled by opposition to higher property taxes and the desire for equalization of educational opportunities by region.

But the trend has been by no means uniform among the states, as revealed very clearly in Table 2. In Hawaii, the support is almost entirely state; in Alaska only 17% of the total is raised locally, and in

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*The author is greatly indebted to the Advisory Commission on Intergovernmental Relations and the Tax Foundation for the use of material compiled by them.

Table 1.

## Public Elementary and Secondary School Revenue by Government Source of Funds

Selected School Years 1929-30—1977-78[a]

| School year | Amount[b] (millions) | | | | Percentage distribution | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Federal | State | Local[c] | Total | Federal | State | Local[c] |
| 1929-30 | $2,088.6 | $7.3 | $353.7 | $1,727.6 | 100.0 | .4 | 16.9 | 82.7 |
| 1933-34 | 1,810.7 | 21.5 | 423.2 | 1,365.9 | 100.0 | 1.2 | 23.4 | 75.4 |
| 1937-38 | 2,222.9 | 26.5 | 656.0 | 1,540.4 | 100.0 | 1.2 | 29.5 | 69.3 |
| 1941-42 | 2,416.6 | 34.3 | 760.0 | 1,622.3 | 100.0 | 1.4 | 31.5 | 67.1 |
| 1945-46 | 3,059.8 | 41.4 | 1,062.1 | 1,956.4 | 100.0 | 1.4 | 34.7 | 63.9 |
| 1949-50 | 5,437.0 | 155.8 | 2,165.7 | 3,115.5 | 100.0 | 2.9 | 39.8 | 57.3 |
| 1953-54 | 7,866.9 | 355.2 | 2,944.1 | 4,567.5 | 100.0 | 4.5 | 37.4 | 58.1 |
| 1955-56 | 9,686.7 | 441.4 | 3,828.9 | 5,416.4 | 100.0 | 4.6 | 39.5 | 55.9 |
| 1957-58 | 12,181.5 | 486.5 | 4,800.4 | 6,894.7 | 100.0 | 4.4 | 39.1 | 56.5 |
| 1959-60 | 14,746.6 | 651.6 | 5,768.0 | 8,326.9 | 100.0 | 4.4 | 39.1 | 56.5 |
| 1961-62 | 17,527.7 | 761.0 | 6,789.2 | 9,977.5 | 100.0 | 4.3 | 38.7 | 57.0 |
| 1963-64 | 20,420.0 | 865.8 | 8,113.9 | 11,440.3 | 100.0 | 4.2 | 39.7 | 56.1 |
| 1965-66 | 25,356.9 | 1,997.0 | 9,920.2 | 13,439.7 | 100.0 | 7.9 | 39.1 | 53.0 |
| 1967-68 | 31,903.1 | 2,806.5 | 12,275.5 | 16,821.1 | 100.0 | 8.8 | 38.5 | 52.7 |
| 1969-70 | 40,266.9 | 3,219.6 | 16,062.8 | 20,984.6 | 100.0 | 8.0 | 39.9 | 52.1 |
| 1971-72 | 50,003.7 | 4,525.0 | 19,133.3 | 26,402.4 | 100.0 | 8.9 | 38.3 | 52.8 |
| 1972-73 | 52,117.9 | 4,525.0 | 20,843.5 | 26,749.4 | 100.0 | 8.7 | 40.0 | 51.3 |
| 1973-74 | 58,230.9 | 4,930.4 | 24,113.4 | 29,187.1 | 100.0 | 8.5 | 41.4 | 50.1 |
| 1974-75 | 61,099.6 | 4,741.6 | 26,659.1 | 29,698.9 | 100.0 | 7.8 | 43.6 | 48.6 |
| 1975-76 | 70,802.8 | 6,210.3 | 31,065.4 | 33,527.1 | 100.0 | 8.8 | 43.9 | 47.4 |
| 1977-78 | 80,925.0 | 6,575.0 | 35,692.0 | 38,658.0 | 100.0 | 8.1 | 44.1 | 47.8 |

[a] Beginning in 1959-60 data include Alaska and Hawaii. Data for 1977-78 are estimated.
[b] Excludes nonrevenue receipts principally from bond sales, loans, and sale of property; includes in-kind payments.
[c] Includes revenue receipts of intermediate units and minor private contributions.
Source: Department of Health, Education, and Welfare; National Center for Education Statistics.

Reproduced from advance copy supplied by the Tax Foundation of Facts and Figures on Government Finance, 1979, p.257

Table 2.

**ESTIMATED REVENUE RECEIPTS FOR ELEMENTARY AND SECONDARY SCHOOLS, BY GOVERNMENTAL SOURCE, BY STATE, 1976-77**

| | Revenue Receipts by Source (in millions) | | | | Percentage Distribution of Receipts — Total | | | Percentage Distribution of Receipts — Excluding Federal | |
|---|---|---|---|---|---|---|---|---|---|
| State | Total | Federal[1] | State | Local and Other[2] | Federal | State | Local and Other | State | Local and Other |
| United States | $74,802 | $6,254 | $32,585 | $35,983 | 8.4 | 43.6 | 48.1 | 47.5 | 52.5 |
| Alabama | 905 | 141 | 567 | 196 | 15.6 | 62.7 | 21.7 | 74.3 | 25.7 |
| Alaska | 307 | 49 | 205 | 52 | 16.1 | 66.9 | 17.1 | 79.8 | 20.2 |
| Arizona | 788 | 81 | 380 | 347 | 10.3 | 45.7 | 44.0 | 50.9 | 49.1 |
| Arkansas | 517 | 82 | 261 | 174 | 15.9 | 50.4 | 33.8 | 60.0 | 40.0 |
| California | 8,536 | 928 | 3,163 | 4,445 | 10.9 | 37.1 | 52.1 | 41.6 | 58.4 |
| Colorado | 968 | 65 | 380 | 524 | 6.7 | 39.2 | 54.1 | 42.0 | 58.0 |
| Connecticut | 1,207 | 63 | 371 | 774 | 5.2 | 30.7 | 64.1 | 32.4 | 67.6 |
| Delaware | 245 | 23 | 168 | 54 | 9.4 | 68.8 | 21.9 | 75.7 | 24.3 |
| District of Columbia | 263 | 43 | — | 220 | 16.4 | — | 83.6 | — | 100.0 |
| Florida | 2,145 | 216 | 1,123 | 806 | 10.1 | 52.3 | 37.6 | 58.2 | 41.8 |
| Georgia | 1,216 | 145 | 643 | 427 | 11.9 | 52.9 | 35.1 | 60.1 | 39.9 |
| Hawaii | 293 | 40 | 242 | 11 | 13.7 | 82.4 | 3.9 | 95.7 | 4.3 |
| Idaho | 266 | 30 | 125 | 111 | 11.3 | 47.0 | 41.6 | 53.0 | 47.0 |
| Illinois | 4,225 | 324 | 2,001 | 1,900 | 7.7 | 47.4 | 45.0 | 51.3 | 48.7 |
| Indiana | 1,723 | 101 | 866 | 757[3] | 5.8 | 50.2 | 43.9 | 53.4 | 46.6 |
| Iowa | 1,117 | 54 | 441 | 622 | 4.8 | 39.5 | 55.7 | 41.5 | 58.5 |
| Kansas | 749 | 90 | 307 | 352 | 12.1 | 40.9 | 47.0 | 46.6 | 53.4 |
| Kentucky | 865 | 106 | 505 | 254 | 12.2 | 58.4 | 29.4 | 66.5 | 33.5 |
| Louisiana[4] | 1,163 | 171 | 671 | 320 | 14.7 | 57.7 | 27.6 | 67.7 | 32.3 |
| Maine | 326 | 24 | 158[5] | 146 | 7.5 | 48.1 | 44.4 | 52.0 | 48.0 |
| Maryland | 1,541 | 79 | 566 | 895 | 5.2 | 36.7 | 58.1 | 38.7 | 61.3 |
| Massachusetts | 2,337 | 90 | 815 | 1,431 | 3.9 | 34.9 | 61.3 | 36.3 | 63.7 |
| Michigan | 3,532 | 183 | 1,259 | 2,090 | 5.2 | 35.6 | 59.2 | 37.6 | 62.4 |
| Minnesota | 1,695 | 102 | 1,002 | 590 | 6.0 | 59.2 | 34.8 | 62.9 | 37.1 |
| Mississippi | 558 | 125 | 299 | 134 | 22.4 | 53.6 | 24.0 | 69.1 | 30.9 |
| Missouri | 1,302 | 104 | 465 | 733 | 8.0 | 35.7 | 56.3 | 38.8 | 61.2 |
| Montana | 302 | 26 | 155 | 121 | 8.7 | 51.3 | 40.0 | 56.2 | 43.8 |
| Nebraska | 468 | 37 | 103 | 328 | 7.9 | 22.0 | 70.1 | 23.9 | 76.1 |
| Nevada | 211 | 11 | 79 | 121 | 5.2 | 37.4 | 57.3 | 39.5 | 60.5 |
| New Hampshire | 255 | 13 | 22 | 220 | 5.1 | 8.6 | 86.3 | 9.1 | 90.9 |
| New Jersey | 2,959 | 115 | 1,128 | 1,715 | 3.9 | 38.2 | 58.0 | 39.7 | 60.3 |
| New Mexico[6] | 405 | 74 | 260 | 72 | 18.2 | 64.1 | 17.7 | 78.3 | 21.7 |
| New York | 7,938 | 348 | 3,094 | 4,496 | 4.4 | 39.0 | 56.6 | 40.8 | 59.2 |
| North Carolina | 1,681 | 254 | 1,097 | 330 | 15.1 | 65.3 | 19.6 | 76.9 | 23.1 |
| North Dakota | 202 | 17 | 97 | 88 | 8.6 | 47.9 | 43.5 | 52.4 | 47.6 |
| Ohio | 3,213 | 188 | 1,311 | 1,713 | 5.9 | 40.8 | 53.3 | 43.4 | 56.6 |
| Oklahoma | 831 | 94 | 446 | 291 | 11.3 | 53.7 | 35.0 | 60.5 | 39.5 |
| Oregon | 806 | 44 | 232 | 530 | 5.5 | 28.8 | 65.8 | 30.4 | 69.6 |
| Pennsylvania | 4,371 | 376 | 1,952 | 2,044 | 8.6 | 44.6 | 46.8 | 48.8 | 51.2 |
| Rhode Island | 285 | 18 | 115 | 152 | 6.2 | 40.4 | 53.4 | 43.1 | 56.9 |
| South Carolina | 825 | 118 | 449 | 257 | 14.3 | 54.5 | 31.2 | 63.6 | 36.4 |
| South Dakota | 196 | 24 | 28 | 144 | 12.1 | 14.3 | 73.6 | 16.3 | 83.7 |
| Tennessee | 1,040 | 141 | 504 | 395 | 13.6 | 48.5 | 38.0 | 56.1 | 43.9 |
| Texas | 4,070 | 444 | 1,918 | 1,708 | 10.9 | 47.1 | 42.0 | 52.9 | 47.1 |
| Utah | 446 | 38 | 235 | 172 | 8.6 | 52.8 | 38.7 | 57.7 | 42.3 |
| Vermont | 168 | 12 | 45 | 111 | 7.0 | 28.9 | 66.1 | 28.8 | 71.2 |
| Virginia | 1,645 | 158 | 540 | 947 | 9.6 | 32.8 | 57.6 | 36.3 | 63.7 |
| Washington | 1,290 | 94 | 821 | 375 | 7.3 | 63.6 | 29.1 | 68.6 | 31.4 |
| West Virginia | 551 | 55 | 341 | 155 | 10.0 | 61.9 | 28.1 | 68.8 | 31.2 |
| Wisconsin | 1,682 | 83 | 595 | 1,004 | 4.9 | 35.4 | 59.7 | 37.2 | 62.8 |
| Wyoming | 172 | 11 | 53 | 108 | 6.5 | 30.7 | 62.8 | 32.9 | 67.1 |

[1] Includes Federal grant programs to State and local school systems, including the Elementary and Secondary Education Act, Economic Opportunity Act, National Defense Education Act, Manpower Development and Training Act, Educational Professional Development Act, aid to federally impacted areas, vocational education etc. Funds received from the School Lunch and Milk Program are included, but reporting on the money value of commodities received is incomplete. Funds from the States' share of federal general revenue sharing are included.

[2] Includes funds from local and intermediate sources, gifts, and tuition and fees from patrons.

[3] Includes $154 million in local receipts from State Property Tax Relief funds not reported as state revenue

[4] Financial data for local education agencies only.

[5] Includes $14 million from state's Revenue Sharing fund used in lieu of state aid

[6] Financial data do not include school lunch program.

Source: National Education Association, *Estimates of School Statistics, 1977-78.* 

Reproduced from Advisory Commission on Intergovernmental Relations, <u>Significant Features of Fiscal Federalism</u>, 1978-79 (Washington:1979), Table 12.

New Mexico and North Carolina, less than 20%. In general the southern states show the least reliance on local sources and thus the property tax. By contrast, in New Hampshire 86% of the school support is local; the state in this respect has not moved out of the 19th century. But South Dakota and Nebraska show local support percentages in excess of 70%, and Oregon, Connecticut, Massachusetts, Vermont, Wyoming and Wisconsin, 60%.

Changing State Tax Sources

The shift from local to state financing has of course greatly reduced the relative reliance on the property tax for the financing of education. Local governments themselves, in total, have been making increased use of nonproperty tax sources, but this trend has had little effect on the school districts, which, with minor exceptions, do not have access to these nonproperty tax sources.

Table 3 provides a summary of shifting relative state reliance on various tax sources. There have been no revolutionary changes in state tax legislation in recent decades, with new state taxes or rate changes. But rising incomes and inflation have produced two very significant trends:

1. The yields of the state income tax, particularly the personal income tax, have been rising rapidly, and in the early seventies the combined yield of the personal and corporate tax exceeded the yield of the sales taxes for the first time since the latter were introduced in the 1930s. The use of fixed dollar exemptions and, in the majority of the states, progressive (if not very progressive) rates cause the yield of the income tax to rise faster than the

TABLE 3

State Tax Revenues by Major Source
Selected Years 1927-1978

| Tax | 1978 | 1975 | 1970 | 1960 | 1950 | 1940 | 1927 |
|---|---|---|---|---|---|---|---|
| Sales Tax | 31 | 31 | 30 | 24 | 21 | 15 | 0 |
| Individual Income Tax | 26 | 24 | 19 | 12 | 9 | 6 | 4 |
| Corporate Income Tax | 9 | 8 | 8 | 7 | 7 | 5 | 6 |
| Motor Fuel and Vehicle License | 12 | 15 | 19 | 27 | 29 | 37 | 35 |
| Tobacco | 3 | 4 | 5 | 5 | 5 | 3 | - |
| Liquor | 2 | 3 | 3 | 4 | 5 | 6 | - |
| Property | 2 | 2 | 2 | 3 | 4 | 8 | 23 |
| Death Duties | 2 | 2 | 2 | 2 | 2 | 3 | 7 |
| Other | 13 | 11 | 12 | 16 | 18 | 17 | 25 |

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77 (Washington: 1977), p. 29; U.S. Bureau of the Census, State Government Tax Collections in 1978, p. 11.

## Table 4.Percent Distribution of State Government Tax Revenue for Selected Taxes: 1978

| State | Total | Sales and gross receipts | | | | License taxes | | Individual income | Corporation net income | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | General sales | Selective sales | | Total | Motor vehicle licenses | | | |
| | | | | Total | Motor fuels | | | | | |
| All States | 100.0 | 51.5 | 31.1 | 20.3 | 8.4 | 6.8 | 3.9 | 25.7 | 9.5 | 6.6 |
| Alabama | 100.0 | 62.7 | 31.2 | 31.5 | 11.0 | 6.7 | 2.2 | 20.0 | 5.2 | 5.4 |
| Alaska | 100.0 | 12.2 | (X) | 12.2 | 4.1 | 5.6 | 2.2 | 25.9 | 6.0 | 50.4 |
| Arizona | 100.0 | 61.5 | 44.2 | 17.3 | 9.2 | 5.9 | 3.9 | 17.0 | 4.9 | 10.7 |
| Arkansas | 100.0 | 59.3 | 34.0 | 25.3 | 13.7 | 7.6 | 4.9 | 21.9 | 9.0 | 2.2 |
| California | 100.0 | 45.4 | 33.2 | 12.2 | 5.7 | 3.8 | 2.5 | 30.8 | 13.8 | 6.2 |
| Colorado | 100.0 | 52.7 | 35.0 | 17.7 | 8.7 | 6.5 | 3.6 | 31.0 | 7.1 | 2.6 |
| Connecticut | 100.0 | 72.3 | 41.6 | 30.7 | 10.4 | 6.8 | 4.2 | 4.9 | 12.9 | 3.2 |
| Delaware | 100.0 | 17.4 | (X) | 17.4 | 8.0 | 27.5 | 4.7 | 42.3 | 9.3 | 3.8 |
| Florida | 100.0 | 74.6 | 43.7 | 30.9 | 10.8 | 8.7 | 5.6 | (X) | 8.8 | 8.9 |
| Georgia | 100.0 | 58.4 | 36.4 | 22.0 | 11.8 | 3.7 | 2.1 | 27.6 | 9.3 | 1.0 |
| Hawaii | 100.0 | 63.6 | 48.7 | 14.9 | 4.5 | 1.8 | 1.0 | 30.1 | 3.8 | 0.7 |
| Idaho | 100.0 | 47.0 | 28.6 | 18.4 | 11.3 | 10.8 | 5.7 | 33.2 | 8.0 | 1.0 |
| Illinois | 100.0 | 56.3 | 34.8 | 21.5 | 7.2 | 7.3 | 0.6 | 27.8 | 6.5 | 2.2 |
| Indiana | 100.0 | 63.1 | 45.6 | 17.5 | 10.8 | 4.8 | 3.7 | 21.8 | 7.8 | 2.3 |
| Iowa | 100.0 | 43.6 | 26.8 | 18.8 | 9.7 | 10.8 | 8.7 | 35.0 | 7.8 | 2.8 |
| Kansas | 100.0 | 53.1 | 33.2 | 19.9 | 11.8 | 8.6 | 6.1 | 22.9 | 12.2 | 3.1 |
| Kentucky | 100.0 | 50.5 | 28.8 | 21.7 | 10.3 | 4.5 | 2.6 | 21.2 | 7.5 | 18.2 |
| Louisiana | 100.0 | 48.8 | 28.6 | 20.3 | 9.3 | 7.1 | 2.4 | 9.7 | 9.4 | 24.9 |
| Maine | 100.0 | 60.4 | 35.3 | 25.1 | 10.7 | 8.0 | 4.3 | 19.8 | 8.5 | 6.5 |
| Maryland | 100.0 | 48.2 | 26.1 | 22.1 | 8.1 | 4.5 | 3.3 | 36.8 | 6.3 | 5.2 |
| Massachusetts | 100.0 | 38.6 | 15.8 | 22.8 | 6.6 | 2.7 | 1.6 | 43.4 | 12.3 | 3.0 |
| Michigan | 100.0 | 43.6 | 28.8 | 14.8 | 8.3 | 4.7 | 3.5 | 31.8 | 16.7 | 3.2 |
| Minnesota | 100.0 | 39.3 | 19.5 | 19.9 | 7.5 | 6.2 | 4.3 | 38.9 | 10.6 | 5.0 |
| Mississippi | 100.0 | 71.1 | 49.8 | 21.3 | 13.1 | 6.1 | 2.0 | 14.5 | 4.8 | 3.4 |
| Missouri | 100.0 | 58.9 | 39.3 | 19.6 | 11.8 | 9.0 | 5.8 | 24.6 | 8.3 | 1.3 |
| Montana | 100.0 | 26.3 | (X) | 26.3 | 13.8 | 8.4 | 4.0 | 36.6 | 8.6 | 20.1 |
| Nebraska | 100.0 | 58.4 | 35.3 | 23.1 | 14.4 | 7.8 | 5.3 | 25.5 | 6.9 | 1.3 |
| Nevada | 100.0 | 78.2 | 36.5 | 41.7 | 8.2 | 14.3 | 4.9 | (X) | (X) | 7.5 |
| New Hampshire | 100.0 | 52.3 | (X) | 52.3 | 18.8 | 15.2 | 8.8 | 3.8 | 21.8 | 6.9 |
| New Jersey | 100.0 | 49.1 | 29.2 | 19.9 | 8.7 | 11.1 | 6.3 | 22.6 | 11.6 | 5.6 |
| New Mexico | 100.0 | 60.4 | 43.2 | 17.2 | 9.1 | 6.5 | 4.5 | 6.0 | 4.9 | 22.1 |
| New York | 100.0 | 37.9 | 22.3 | 15.6 | 4.5 | 4.1 | 2.6 | 41.2 | 12.3 | 4.5 |
| North Carolina | 100.0 | 47.6 | 22.3 | 25.3 | 11.6 | 8.2 | 4.4 | 32.5 | 8.8 | 2.9 |
| North Dakota | 100.0 | 51.1 | 31.5 | 19.6 | 10.8 | 11.9 | 7.6 | 22.3 | 6.8 | 7.9 |
| Ohio | 100.0 | 58.2 | 31.4 | 26.8 | 9.7 | 8.1 | 4.7 | 18.8 | 11.2 | 3.8 |
| Oklahoma | 100.0 | 42.6 | 18.6 | 24.0 | 8.7 | 11.5 | 8.5 | 19.2 | 6.8 | 19.8 |
| Oregon | 100.0 | 14.8 | (X) | 14.8 | 8.3 | 12.5 | 7.6 | 59.2 | 10.8 | 2.6 |
| Pennsylvania | 100.0 | 49.6 | 28.0 | 21.8 | 8.2 | 11.6 | 4.6 | 21.2 | 12.6 | 5.0 |
| Rhode Island | 100.0 | 56.7 | 30.7 | 26.0 | 9.0 | 6.2 | 3.9 | 24.4 | 9.5 | 4.1 |
| South Carolina | 100.0 | 59.1 | 34.5 | 24.6 | 12.0 | 4.4 | 2.3 | 25.7 | 9.0 | 1.7 |
| South Dakota | 100.0 | 86.0 | 51.4 | 34.6 | 16.8 | 8.7 | 6.7 | (X) | 1.3 | 2.9 |
| Tennessee | 100.0 | 73.8 | 49.0 | 24.8 | 11.8 | 9.6 | 5.1 | 1.5 | 10.0 | 5.1 |
| Texas | 100.0 | 68.6 | 37.7 | 30.8 | 8.9 | 11.4 | 5.2 | (X) | (X) | 20.1 |
| Utah | 100.0 | 57.2 | 42.8 | 14.4 | 9.7 | 4.6 | 2.7 | 31.2 | 4.9 | 2.2 |
| Vermont | 100.0 | 49.3 | 14.0 | 35.3 | 10.0 | 11.2 | 8.2 | 28.4 | 8.0 | 3.0 |
| Virginia | 100.0 | 46.7 | 20.9 | 25.8 | 11.8 | 5.4 | 3.6 | 37.5 | 7.1 | 3.3 |
| Washington | 100.0 | 76.5 | 56.8 | 19.7 | 9.5 | 5.7 | 3.0 | (X) | (X) | 17.8 |
| West Virginia | 100.0 | 71.6 | 49.6 | 22.0 | 8.6 | 5.9 | 4.1 | 18.7 | 2.1 | 1.7 |
| Wisconsin | 100.0 | 38.0 | 24.7 | 13.3 | 5.7 | 4.9 | 3.2 | 42.9 | 9.2 | 5.0 |
| Wyoming | 100.0 | 56.7 | 40.1 | 16.6 | 12.5 | 13.8 | 10.1 | (X) | (X) | 29.6 |
| EXHIBIT: District of Columbia | 100.0 | 37.0 | 18.6 | 18.4 | 2.5 | 3.1 | 2.0 | 26.0 | 8.2 | 25.8 |

Note: Because of rounding, detail may not add to totals. Percentages were computed based on amounts in thousands of dollars.

X Not applicable.

Reproduced from U.S. Bureau of the Census, State Government Tax Collections in 1978, p. 10.

price level and total incomes, while the sales tax simply keeps pace with total consumer expenditures.

2. The incredible deterioration in real terms of the motor fuel taxes and motor vehicle license fees as a revenue source. These have declined from 37% in 1940 to 27% in 1960, 15% in 1975, and 12% in 1978. There is little wonder that the roads are full of potholes. The liquor and tobacco taxes have also fallen sharply; the relative yields of both have dropped in half, roughly, since 1960. The reason is simple: these levies, with minor exceptions, have specific rates. Legislators and voters rarely will raise them, so they continuously decline in yield relative to total revenues and to personal income taxes.

There is, of course, a wide range of patterns among the states, as shown in Table 4. There are groups at each extreme: the states relying primarily on sales and related taxes, and those relying primarily on income taxes, as shown in Table 5.

TABLE 5

States Relying Primarily on Sales and Income Taxes, 1978

| Sales Tax States | | Income Tax States | |
|---|---|---|---|
| State | Sales and Related Taxes as Percentage of State Tax Collections | State | Income Tax as Percentage of State Collections |
| Washington | 57 | Oregon | 70 |
| South Dakota | 51 | Massachusetts | 56 |
| West Virginia | 50 | New York | 54 |
| Mississippi | 50 | Wisconsin | 52 |
| Hawaii | 49 | Delaware | 52 |
| Tennessee | 49 | Minnesota | 49 |
| Indiana | 46 | Michigan | 48 |
| Arizona | 44 | Montana | 45 |
| Florida | 44 | Virginia | 45 |
| New Mexico | 43 | Iowa | 43 |
| Utah | 43 | California | 43 |
| Connecticut | 42 | Maryland | 42 |
| Wyoming | 40 | Idaho | 41 |
| | | North Carolina | 41 |

These are Bureau of the Census calculations and include in the sales tax data some related levies that other states do not have, such as gross receipts taxes. There are 13 states that receive 40% or more of their tax revenues form the sales tax, 14 that do so from the income tax. Several states in each group receive over half from the tax involved. Oregon's 70% reliance on the income tax is the highest dependency of any state on a particular levy. Several, but by no means all, in each group do not use the other levy, or at least with general coverage.

The result is widespread difference in the distribution of burden by income class, as shown in Table 6. For the states as a whole the distribution is somewhat regressive by income class, but not to a high degree. This pattern is also found with states making substantial use of both sales and income taxes, with property taxes at the local level. But the high income tax states, such as Oregon, show a progressive pattern throughout or over a wide range, whereas the non-income tax states, such as Washington, show a strikingly regressive burden.

While there is an ongoing dispute over the incidence of the property tax by income group because of varying assumptions about shifting of portions of the tax, the studies typically show some regressivity by income groups. This is particularly evident in the lowest income group - made up in part of retired persons owning their homes, and of others whose current incomes are far below their lifetime incomes. Table 7 shows the results of a typical study. Thus shift from financing of education from property to income taxes clearly produces a more progressive distribution of burden, so far as individual property owners are concerned. Even

-- DISTRIBUTION OF MAJOR STATE-LOCAL TAX BURDENS RELATIVE TO FAMILY INCOME SIZE, BY STATE, 1974[1]

(Tax Burdens as Percentages of Income)

| State | Adjusted Gross Income, Family of Four, 1974 | | | | | |
|---|---|---|---|---|---|---|
| | $5,000 | $7,500 | $10,000 | $17,500 | $25,000 | $50,000 |
| ALL STATES[2] | 11.3 | 10.0 | 8.9 | 8.5 | 8.1 | 7.8 |
| ALABAMA | 9.8 | 8.7 | 8.2 | 7.6 | 7.2 | 6.4 |
| ARIZONA | 9.9 | 8.7 | 7.7 | 7.3 | 7.1 | 6.9 |
| ARKANSAS | 8.5 | 7.8 | 7.0 | 6.8 | 6.8 | 7.4 |
| CALIFORNIA | 11.8 | 9.9 | 8.8 | 9.2 | 9.1 | 10.8 |
| COLORADO | 11.8 | 10.6 | 9.5 | 9.2 | 8.9 | 8.4 |
| CONNECTICUT | 18.4 | 15.1 | 12.3 | 11.9 | 9.8 | 7.6 |
| DELAWARE | 9.8 | 8.9 | 8.3 | 9.0 | 9.5 | 8.6 |
| FLORIDA | 7.5 | 6.0 | 4.9 | 4.2 | 3.5 | 2.6 |
| GEORGIA | 10.6 | 8.9 | 7.8 | 8.1 | 8.1 | 8.0 |
| IDAHO | 9.7 | 8.3 | 7.8 | 8.3 | 8.6 | 9.0 |
| ILLINOIS | 14.3 | 12.5 | 10.7 | 10.1 | 8.9 | 7.6 |
| INDIANA | 13.0 | 11.3 | 9.6 | 9.3 | 8.1 | 6.8 |
| IOWA | 14.5 | 13.4 | 12.1 | 11.3 | 10.6 | 9.5 |
| KANSAS | 14.3 | 12.2 | 10.5 | 10.3 | 9.3 | 8.5 |
| KENTUCKY | 9.5 | 9.6 | 9.0 | 8.6 | 8.4 | 7.7 |
| LOUISIANA | 6.1 | 5.0 | 4.6 | 4.1 | 3.7 | 3.6 |
| MAINE | 13.6 | 11.5 | 9.7 | 9.2 | 8.3 | 7.8 |
| MARYLAND | 13.9 | 13.6 | 12.8 | 12.4 | 11.9 | 11.7 |
| MASSACHUSETTS | 16.0 | 15.8 | 13.9 | 14.3 | 13.0 | 11.6 |
| MICHIGAN | 10.9 | 9.8 | 8.8 | 9.3 | 8.6 | 8.7 |
| MINNESOTA | 12.7 | 12.7 | 12.1 | 11.9 | 12.0 | 11.8 |
| MISSISSIPPI | 6.8 | 5.2 | 6.6 | 4.9 | 4.7 | 4.5 |
| MISSOURI | 12.0 | 10.5 | 9.3 | 8.8 | 8.5 | 7.9 |
| MONTANA | 11.2 | 10.0 | 9.2 | 9.1 | 8.8 | 8.8 |
| NEBRASKA | 12.2 | 10.5 | 9.0 | 8.8 | 7.8 | 7.4 |
| NEVADA | 8.4 | 6.8 | 5.5 | 4.9 | 4.0 | 3.1 |
| NEW HAMPSHIRE | 12.3 | 10.2 | 8.2 | 7.6 | 6.4 | 5.1 |
| NEW JERSEY | 20.5 | 16.6 | 14.4 | 13.5 | 11.6 | 9.6 |
| NEW MEXICO | 9.9 | 8.5 | 7.4 | 7.0 | 6.8 | 7.6 |
| NEW YORK | 11.6 | 11.2 | 10.6 | 10.7 | 11.6 | 15.0 |
| NORTH CAROLINA | 10.3 | 9.6 | 9.0 | 8.9 | 8.8 | 8.8 |
| NORTH DAKOTA | 10.1 | 9.0 | 7.8 | 8.1 | 8.5 | 8.5 |
| OHIO | 10.5 | 9.0 | 7.9 | 7.7 | 7.3 | 7.1 |
| OKLAHOMA | 9.0 | 7.5 | 6.4 | 6.4 | 6.4 | 6.8 |
| OREGON | 6.6 | 8.3 | 8.4 | 9.0 | 9.4 | 10.6 |
| PENNSYLVANIA | 12.5 | 12.9 | 11.5 | 10.8 | 9.9 | 8.9 |
| RHODE ISLAND | 14.3 | 12.2 | 10.5 | 10.4 | 9.3 | 8.8 |
| SOUTH CAROLINA | 9.1 | 7.9 | 7.3 | 7.6 | 7.7 | 8.0 |
| SOUTH DAKOTA | 12.7 | 10.6 | 8.8 | 7.8 | 6.6 | 5.2 |
| TENNESSEE | 10.5 | 8.7 | 7.2 | 6.2 | 5.2 | 4.0 |
| TEXAS | 9.3 | 7.5 | 6.1 | 5.6 | 4.6 | 3.5 |
| UTAH | 10.3 | 9.2 | 8.2 | 8.4 | 8.1 | 7.4 |
| VERMONT | 11.9 | 11.5 | 10.4 | 10.3 | 10.0 | 11.0 |
| VIRGINIA | 10.0 | 8.6 | 7.9 | 8.2 | 7.8 | 7.5 |
| WASHINGTON | 10.4 | 8.3 | 6.8 | 5.8 | 4.7 | 3.5 |
| WEST VIRGINIA | 7.7 | 6.4 | 5.6 | 5.2 | 4.9 | 5.1 |
| WISCONSIN | 16.3 | 16.1 | 14.8 | 14.7 | 14.7 | 14.6 |
| WYOMING | 8.8 | 7.1 | 5.8 | 5.2 | 4.3 | 3.3 |

[1] All income is assumed to come from wages and salaries and earned by one spouse in the city of residence. Families are assumed to reside in the largest city in each state. Includes the following state and local taxes: state individual income, state general sales, local individual income, local sales, property tax on residence, cigarette excise, motor vehicle and gasoline excise.
[2] Excluding Alaska and Hawaii.

SOURCE: *Family Tax Burdens compared among States and among Cities located within Kentucky and Neighboring States.* A study prepared for the Kentucky Department of Revenue by Stephen E. Lile, Associate Professor, Western Kentucky University, December 15, 1975.

Reproduced from Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77 Edition, Washington, 1977, p. 45

TABLE 7 – REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME, OWNER-OCCUPIED SINGLE-FAMILY HOMES, BY INCOME CLASS AND BY REGION, 1970

| Family income[1] | United States Total | Northeast Region | Northcentral Region | South Region | West Region | Exhibit: No. and distribution of homeowners: No. (000) | Exhibit: No. and distribution of homeowners: % dist.[2] |
|---|---|---|---|---|---|---|---|
| Less than $2,000 | 16.6 | 30.8 | 18.0 | 8.2 | 22.9 | 1,718.8 | 5.5 |
| $2,000– 2,999 | 9.7 | 15.7 | 9.8 | 5.2 | 12.5 | 1,288.7 | 9.7 |
| 3,000– 3,999 | 7.7 | 13.1 | 7.7 | 4.3 | 8.7 | 1,397.8 | 14.1 |
| 4,000– 4,999 | 6.4 | 9.8 | 6.7 | 3.4 | 8.0 | 1,342.8 | 18.5 |
| 5,000– 5,999 | 5.5 | 9.3 | 5.7 | 2.9 | 6.5 | 1,365.1 | 22.8 |
| 6,000– 6,999 | 4.7 | 7.1 | 4.9 | 2.5 | 5.9 | 1,530.1 | 27.8 |
| 7,000– 9,999 | 4.2 | 6.2 | 4.2 | 2.2 | 5.0 | 5,377.4 | 45.0 |
| 10,000–14,999 | 3.7 | 5.3 | 3.6 | 2.0 | 4.0 | 8,910.3 | 73.6 |
| 15,000–24,999 | 3.3 | 4.6 | 3.1 | 2.0 | 3.4 | 6,365.6 | 94.0 |
| 25,000 or more | 2.9 | 3.9 | 2.7 | 1.7 | 2.9 | 1,876.9 | 100.0 |
| All incomes | | | | | | 31,144.7 | |
| Arithmetic mean | 4.9 | 6.9 | 5.1 | 2.9 | 5.4 | | |
| Median | 3.4 | 5.0 | 3.5 | 2.0 | 3.9 | | |

[1]Census definition of income (income from all sources). Income reported received in 1970.
[2]Cumulated from lowest income class.

Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid during 1970. Medians were computed by ACIR staff.

Reproduced from Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77 Edition, Washington, 1977, p.143.

shift to a sales tax lessens regressivity, if it is assumed that the proportion of the property tax on business property is shifted to the consumer. If it is assumed that the property tax is primarily a tax on capital, however, then the distribution of burden is progressive and shift to a sales tax increases regressivity.[1] This is not the popularly held view, however.

The studies thus far available of distribution of property tax burden were made before most of the circuit breaker and other provisionsto lessen burden on the elderly poor were introduced. The present property taxes, as explained below, are undoubtedly less regressive than the tax was a decade ago.

## Changes in Major Taxes

Recent decades have not seen drastic changes in the structure of the three major tax sources, but some have occurred.

Property Taxes - The major change in property taxes has been the introduction of "circuit breaker" features, designed to lessen the impact of the tax on those persons most severely burdened - the elderly owning their own homes but having little current income. The primary feature is that a credit is given to low income taxpayers, either as a deduction from taxable income or as a cash refund. With one group of states, if the property tax exceeds a certain percentage of the taxpayer's income, the taxpayer receives a credit for all or part

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[1]Note Henry Aaron, Who Pays the Property Tax? - A New View, (Washington: Brookings, 1975).

of the excess; in the other all taxpayers in a specified lower income group receive a percentage reduction in property taxes, the percentage falling with increases in income. Five states provide the credit regardless of age; in the others only the elderly receive the credit. Several states allow credit for tenants, under the assumption that a certain percentage of rent paid - usually 20 - reflects the landlords' property tax shifted to the tenant. By 1977, 29 states had some form of property tax relief for the low income elderly.

One other change has been the move to check rising property taxes on farm lands by requiring assessment on the basis of farm use rather than value for other purposes, and to shift to a farm productivity basis instead of sales value, a measure designed in part to meet the problem created by increases in farm land values out of proportion to increasing yields from the properties.

Income Taxes - State income taxes, personal and corporate combined, have become the number one source of state tax revenue, for the states, as a whole. Trends in reliance on this tax by state are shown in Table 8. The last major shift to this tax occured in the period between 1967 and 1971, when ten states, including the major industrial states of Michigan, Illinois, Ohio, and Pennsylvania imposed the tax. Thereafter only one individual income tax was added (New Jersey in 1976). There are only five states without individual income taxes, although three have taxes with limited scope. Forty five had

[1] A survey of property tax changes is provided by Ronald Welch, "Property Tax Developments: Modernization, Classification, Site Value Taxation," National Tax Journal, Vol. 29 (Sept. 1976), pp. 323-27.

TABLE 8 -- PERCENTAGE OF STATE TAX REVENUE FROM INDIVIDUAL INCOME TAXES, BY STATE, SELECTED FISCAL YEARS, 1953 THROUGH 1977

| State | 1977 | 1974 | 1971 | 1968 | 1963 | 1953 | Percentage Point Increase or Decrease (-) 1971-1977 | Percentage Point Increase or Decrease (-) 1953-1977 |
|---|---|---|---|---|---|---|---|---|
| All States | 25.2 | 23.0 | 19.7 | 17.1 | 13.4 | 9.2 1/ | 5.5 | 16.0 |
| Alabama | 18.7 | 16.7 | 13.0 | 11.7 | 9.2 | 11.3 1/ | 5.7 | 7.4 |
| Alaska | 27.2 | 39.5 | 40.9 | 37.4 | 33.2 | n.a. | -13.7 | n.a. |
| Arizona | 16.4 | 18.6 | 14.1 | 10.4 | 6.7 | 7.6 | 2.3 | 8.8 |
| Arkansas | 20.4 | 19.3 | 11.6 | 10.9 | 7.4 | 3.7 | 8.8 | 16.7 |
| California | 28.8 | 22.6 | 22.3 | 20.4 | 12.6 | 8.3 | 6.5 | 20.5 |
| Colorado | 31.5 | 31.5 | 27.9 | 25.2 | 20.0 | 12.2 | 3.6 | 19.3 |
| Connecticut | 4.1 | 1.7 | 1.3 | 2/ | 2/ | 2/ | 2.8 | 4.1 |
| Delaware | 43.0 | 35.1 | 35.8 | 37.7 | 37.5 | 12.0 | 7.2 | 31.0 |
| Florida | | | No Individual Income Tax | | | | | |
| Georgia | 26.0 | 22.4 | 18.5 | 15.7 | 11.2 | 6.4 | 7.5 | 19.6 |
| Hawaii | 29.6 | 30.7 | 31.4 | 29.0 | 23.7 | n.a. | -1.8 | n.a. |
| Idaho | 30.6 | 28.1 | 30.1 | 25.3 | 28.4 | 17.3 | 0.5 | 13.3 |
| Illinois | 26.6 | 25.6 | 24.6 | 2/ | 2/ | 2/ | 2.0 | 26.6 |
| Indiana | 22.2 | 19.4 | 20.7 | 19.7 | 2/ | 2/ | 1.5 | 22.2 |
| Iowa | 34.6 | 32.2 | 18.0 | 16.8 | 15.7 | 10.8 | 16.6 | 23.8 |
| Kansas | 21.6 | 20.9 | 17.7 | 17.6 | 11.8 | 8.6 | 3.9 | 13.0 |
| Kentucky | 21.7 | 19.2 | 17.5 | 17.6 | 14.0 | 14.7 | 4.2 | 7.0 |
| Louisiana | 7.8 | 7.6 | 8.3 | 5.3 | 3.6 | 6.5 1/ | -0.5 | 1.3 |
| Maine | 16.0 | 11.6 | 10.4 | 2/ | 2/ | 2/ | 5.6 | 16.0 |
| Maryland | 37.9 | 36.3 | 35.8 | 30.1 | 25.9 | 14.9 | 2.1 | 23.0 |
| Massachuetss | 40.6 | 44.0 | 37.9 | 29.9 | 32.1 | 23.2 | 2.7 | 17.4 |
| Michigan | 29.8 | 26.2 | 18.7 | 14.0 | 2/ | 2/ | 11.1 | 29.8 |
| Minnesota | 38.5 | 38.0 | 33.7 | 33.4 | 32.7 | 20.7 | 4.8 | 17.8 |
| Mississippi | 13.6 | 9.8 | 8.9 | 3.3 | 3.6 | 4.9 | 4.7 | 8.7 |
| Missouri | 24.4 | 22.5 | 19.8 | 16.4 | 15.9 | 12.5 1/ | 4.6 | 11.9 |
| Montana | 35.8 | 35.9 | 31.2 | 28.2 | 19.9 | 13.1 | 4.6 | 22.7 |
| Nebraska | 28.0 | 19.5 | 18.3 | 7.0 | 2/ | 2/ | 9.7 | 28.0 |
| Nevada | | | No Individual Income Tax | | | | | |
| New Hampshire | 3.5 | 4.8 | 4.4 | 3.6 | 3.7 | 4.7 | -0.9 | -1.2 |
| New Jersey | 22.9 3/ | 1.6 | 1.3 | 1.4 | 1.6 | 2/ | 21.6 | 22.9 |
| New Mexico | 4.5 | 13.2 | 11.3 | 7.0 | 6.7 | 3.1 | -6.8 | 1.4 |
| New York | 42.1 | 40.3 | 40.5 | 40.2 | 40.6 | 30.1 | 1.6 | 12.0 |
| North Carolina | 32.8 | 27.9 | 23.3 | 24.0 | 17.7 | 13.0 | 9.5 | 19.8 |
| North Dakota | 18.6 | 20.5 | 11.9 | 13.0 | 9.0 | 8.0 | 6.7 | 10.6 |
| Ohio | 17.2 | 15.0 | 2/ | 2/ | 2/ | 2/ | 17.2 | 17.2 |
| Oklahoma | 19.0 | 15.6 | 11.8 | 9.7 | 5.2 | 4.7 | 7.2 | 14.3 |
| Oregon | 57.7 | 50.1 | 50.9 | 44.4 | 44.3 | 33.6 | 6.8 | 24.1 |
| Pennsylvania | 21.1 | 24.2 | 4.4 | 2/ | 2/ | 2/ | 16.7 | 21.1 |
| Rhode Island | 23.6 | 22.2 | 13.8 | 2/ | 2/ | 2/ | 9.8 | 23.6 |
| South Caroline | 24.5 | 21.4 | 18.1 | 17.2 | 12.4 | 7.9 | 6.4 | 16.6 |
| South Dakota | | | No Individual Income Tax | | | | | |
| Tennessee | 1.5 | 1.5 | 1.7 | 1.8 | 1.9 | 1.9 | -0.2 | -0.4 |
| Texas | | | No Individual Income Tax | | | | | |
| Utah | 29.8 | 24.8 | 23.0 | 23.6 | 15.4 | 10.6 | 6.8 | 19.2 |
| Vermont | 30.6 | 29.4 | 30.3 | 34.1 | 26.2 | 21.9 | 0.3 | 8.7 |
| Virginia | 34.8 | 31.1 | 30.1 | 30.4 | 31.4 | 17.9 | 4.7 | 16.9 |
| Washington | | | No Individual Income Tax | | | | | |
| West Virginia | 18.2 | 16.4 | 13.5 | 8.8 | 7.6 | 2/ | 4.7 | 18.2 |
| Wisconsin | 41.9 | 39.5 | 35.6 | 41.2 | 36.5 | 25.3 | 6.3 | 16.6 |
| Wyoming | | | No Individual Income Tax | | | | | |
| Exhibit: Dist. of Col. | 27.2 | 26.3 | 25.5 | 18.4 | 14.2 | 12.0 4/ | 1.7 | 15.2 |

n.a.--Not applicable, 1953 prior to statehood.
1/Includes combined corporation and individual taxes for Alabama, Louisiana, and Missouri.
2/Individual income tax not in effect for fiscal years indicated.
3/The New Jersey tax was initially enacted in 1961 as the "Emerging Transportation Tax" (Commuters Income Tax), the broad-based personal income tax was enacted in 1976.
4/Includes combined corporation and individual taxes.

Source: ACIR staff computations based on U.S. Bureau of the Census, Governments Division, various publications.

impose corporate income taxes by 1975; of the larger states only Texas and Washington have not done so. The one exception to the general trend was Michigan's repeal of its corporation income tax in 1975 in favor of a value added type of levy called the single business tax, mainly to stabilize state revenue.[1]

The rates of many state income taxes have remained unchanged for decades. There has been little or no upward trend. Some states readjust their rates from year to year for budget balancing purposes, and Nebraska does so under an automatic formula. In 1978 5 states actually reduced their income tax rates. There has been a definite, but difficult to measure or summarize, trend toward liberalizing exemptions and granting additional deductions, thus in effect reducing the overall burden. Trends in effective burden are shown in Table 9. There is now the beginning of a trend to index the brackets, Colorado and Arizona making the change in 1978, the former for the one year only. Tables 8 and 9 show trends in state individual income tax revenues and effective rates.

Sales Taxes[2] - Changes in sales taxes have not been dramatic; no new state has added the sales tax since 1969. The taxes, as of May 1, 1979, are summarized in Table 10.

Rates - As shown in Table 11, there has been a steady but very slow upward trend in sales tax rates. In 1962, the great majority

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[1] Advisory Commission on Intergovernmental Relations, The Michigan Single Business Tax, (Washington, 1978).

[2] This is based on the article by the author, "Changes in State, Local, and Provincial Sales Taxes in the Last Decade," Canadian Tax Journal, Vol. 27 (Jan.-Feb., 1979), pp. 36-45.

Table 9--EFFECTIVE RATES OF STATE PERSONAL INCOME TAXES FOR SELECTED ADJUSTED GROSS INCOME LEVELS, MARRIED COUPLE WITH TWO DEPENDENTS, BY STATE, 1977 1/

| State | Adjusted Gross Income Class-- | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | $5,000 | $7,500 | $10,000 | $15,000 | $17,500 | $20,000 | $25,000 | $50,000 |
| Alabama* | 0.3% | 1.1% | 1.7% | 1.5% | 1.9% | 2.0% | 2.3% | 2.6% |
| Alaska | -- | 0.4 | 1.0 | 1.6 | 1.9 | 2.0 | 2.5 | 4.4 |
| Arizona* | 0.6 | 1.2 | 1.6 | 1.3 | 1.7 | 1.9 | 2.5 | 3.4 |
| Arkansas | -- | 1.1 | 1.6 | 1.7 | 2.1 | 2.3 | 2.9 | 4.5 |
| California 2/ | -0.7 | -0.5 | -0.4 | 1.1 | 1.6 | 1.8 | 2.5 | 5.6 |
| Colorado* 2/ | -0.5 | 0.8 | 1.4 | 1.1 | 1.7 | 2.0 | 2.6 | 3.6 |
| Delaware* | 0.8 | 1.8 | 2.5 | 2.7 | 3.5 | 3.9 | 4.7 | 7.1 |
| District of Columbia 2/ | -0.1 | 1.7 | 2.7 | 2.8 | 3.4 | 3.7 | 4.6 | 7.0 |
| Georgia | -- | 0.3 | 0.8 | 1.2 | 1.7 | 2.0 | 2.7 | 4.0 |
| Hawaii 2/ | -3.4 | -0.6 | 1.3 | 2.6 | 3.2 | 3.6 | 4.3 | 6.0 |
| Idaho 2/ | -1.2 | -** | 1.0 | 1.8 | 2.5 | 2.8 | 3.6 | 5.1 |
| Illinois | 0.5 | 1.2 | 1.5 | 1.8 | 1.9 | 2.0 | 2.1 | 2.3 |
| Indiana | 1.0 | 1.3 | 1.5 | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 |
| Iowa* | 1.1 | 2.2 | 2.8 | 2.4 | 2.8 | 2.7 | 3.4 | 4.5 |
| Kansas* | -- | 0.7 | 1.0 | 1.2 | 1.5 | 1.6 | 2.0 | 3.1 |
| Kentucky* | 0.5 | 1.9 | 2.5 | 2.0 | 2.4 | 2.6 | 2.9 | 3.2 |
| Louisiana* | -- | -- | 0.6 | 0.9 | 1.0 | 0.9 | 1.0 | 1.5 |
| Maine | -- | 0.2 | 0.4 | 0.7 | 1.0 | 1.3 | 2.1 | 4.7 |
| Maryland | 0.6 | 1.7 | 2.5 | 2.3 | 2.6 | 2.7 | 3.1 | 3.8 |
| Massachusetts 2/ | -0.5 | 1.9 | 2.7 | 3.3 | 3.6 | 3.8 | 4.0 | 4.6 |
| Michigan 3/ | -1.6 | ** | 1.5 | 0.8 | 1.0 | 1.3 | 1.4 | 2.6 |
| Minnesota* 4/ | -6.9 | -3.2 | 1.4 | 4.8 | 5.6 | 5.9 | 6.7 | 7.7 |
| Mississippi | -- | -- | 0.4 | 0.7 | 1.1 | 1.3 | 1.8 | 2.7 |
| Missouri* | -- | 0.2 | 0.7 | 1.0 | 1.4 | 1.6 | 2.1 | 2.8 |
| Montana* | 1.0 | 2.0 | 2.8 | 2.2 | 2.7 | 3.0 | 3.6 | 4.9 |
| Nebraska 2/ | -1.6 | -0.6 | 0.2 | 1.3 | 1.6 | 1.6 | 2.1 | 3.7 |
| New Jersey | -- | 0.1 | 0.6 | 1.5 | 1.5 | 1.6 | 1.7 | 2.1 |
| New Mexico 2/ | -2.8 | -1.7 | -0.9 | 0.1 | 0.5 | 0.8 | 1.4 | 3.6 |
| New York | -- | 1.3 | 2.1 | 2.4 | 3.0 | 3.3 | 4.4 | 8.5 |
| North Carolina | 0.8 | 1.8 | 2.6 | 2.5 | 3.1 | 3.3 | 3.9 | 5.1 |
| North Dakota* | -- | 0.4 | 0.8 | 1.1 | 1.7 | 2.2 | 3.1 | 4.3 |
| Ohio | 0.2 | 0.3 | 0.5 | 0.8 | 1.0 | 1.2 | 1.5 | 2.3 |
| Oklahoma* | 0.1 | 0.3 | 0.5 | 0.6 | 0.9 | 1.1 | 1.8 | 3.4 |
| Oregon* | 0.7 | 2.3 | 3.0 | 2.9 | 3.3 | 3.6 | 4.3 | 6.2 |
| Pennsylvania | -- | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Rhode Island | -- | -- | 0.8 | 1.6 | 1.7 | 1.7 | 2.1 | 3.6 |
| South Carolina* | 0.5 | 1.2 | 1.6 | 1.7 | 2.2 | 2.6 | 3.3 | 4.8 |
| Utah* | 0.4 | 1.4 | 2.0 | 2.1 | 2.6 | 2.9 | 3.4 | 4.0 |
| Vermont | -0.6 | 0.2 | 1.1 | 2.3 | 2.6 | 2.5 | 3.1 | 5.3 |
| Virginia | 0.5 | 1.1 | 1.8 | 2.1 | 2.2 | 2.6 | 3.1 | 4.1 |
| West Virginia | 0.9 | 1.2 | 1.4 | 1.3 | 1.5 | 1.6 | 1.9 | 3.0 |
| Wisconsin 2/ | -4.8 | 1.8 | 3.3 | 3.7 | 4.4 | 4.7 | 5.6 | 7.4 |
| Median Rate | -- | 0.75 | 1.45 | 1.70 | 1.90 | 2.00 | 2.65 | 4.00 |
| Federal Tax | -6.0 | -0.1 | 4.5 | 9.2 | 10.2 | 10.2 | 12.5 | 21.1 |

Note: "Effective rates" are computed as the percentage that tax liability is of adjusted gross income (i.e., income after business deductions but before personal exemptions and other allowable deductions). In computing income taxes, it was assumed that all income was from wages and salaries and earned by one spouse. In computing the state income taxes for the $5,000, $7,500, and $10,000 income classes, the optional standard deductions, low income allowances, and optional tax tables were used. For the other income classes (based on deductions claimed on federal income tax returns) the following estimated itemized deductions were assumed: $15,000--$3,830; $17,500--$3,915; $20,000--$4,650; $25,000--$5,115; and $50,000--$7,875. For federal tax computations, the zero bracket amount ($3,200) and the earned income credit applied for the $5,000 and $7,500 classes; the zero bracket amount for the $10,000 and $15,000 classes; and the average of the zero bracket amount and estimated itemized deductions for the $17,500 class. For the remaining classes, the following estimated itemized deductions were assumed: $20,000--$5,200; $25,000--$5,850; $50,000--$10,100 (state itemized deductions with the addition of est. state income taxes and less certain deductions not allowed under federal law). Excludes the following states with limited personal income taxes: Connecticut (capital gains and dividends); New Hampshire and Tennessee (interest and dividends).

--Indicates no tax liability. *Federal income tax deductible, limited in several states. **Less than .05 percent.

1/Based upon tax liability on income earned during calendar year 1977.
2/Negative rates result from credits allowed for consumer type taxes paid and/or property tax or renter credits. If the credit exceeds the tax liability the taxpayer can apply for a refund.
3/Includes credits for estimated city (Detroit) income and property tax payments.
4/Includes renter credits for the first three income classes. Homeowners under 65 receive property tax refunds as a direct cash payment and cannot use their refund as a credit on their income tax returns.

Source: ACIR staff computations based on the Commerce Clearing House, State Tax Reporter; and Department of the Treasury, Internal Revenue Service, Your Federal Income Tax, 1978 Edition.

Reproduced from Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1978-79 (Washington:1979), Appedix, Table 50.

TABLE 10

State Sales Taxes, May 1, 1979

| State | State Sales Tax Rate (percent) | Maximum Local Sales Tax Rate (percent) | Combined State and Maximum Local Rate | Sales Tax Revenue as Percent of Total State Tax Revenue, 1978 | Food Exemption |
|---|---|---|---|---|---|
| Alabama | 4 | 3 | 7 | 32 | |
| Arizona | 4 | 2 | 6 | 43 | |
| Arkansas | 3 | 1 | 4 | 34 | |
| California | 4.75 | 1.75 | 6.5 | 33 | x |
| Colorado | 3 | 4 | 7 | 35 | |
| Connecticut | 7 | -- | 7 | 42 | x |
| Florida | 4 | -- | 4 | 44 | x |
| Georgia | 3 | 1 | 4 | 36 | |
| Hawaii | 4 | -- | 4 | 28 | |
| Idaho | 3 | -- | 3 | 29 | |
| Illinois | 4 | 1 | 5 | 35 | |
| Indiana[1] | 4 | -- | 4 | 35 | x |
| Iowa | 3 | -- | 3 | 27 | |
| Kansas | 3 | .5 | 3.5 | 33 | |
| Kentucky | 5 | -- | 5 | 35 | x |
| Louisiana | 3 | 3 | 6 | 29 | x |
| Maine | 5 | -- | 5 | 35 | x |
| Maryland | 5 | -- | 5 | 31 | x |
| Massachusetts | 5 | -- | 5 | 16 | x |
| Michigan | 4 | -- | 4 | 29 | x |
| Minnesota | 4 | 1 | 5 | 23 | x |
| Mississippi | 5 | -- | 5 | 50 | |
| Missouri | 3.125 | 1.5 | 4.625 | 39 | |
| Nebraska | 3 | 1 | 4 | 35 | |
| Nevada | 3 | .5 | 3.5 | 37 | |
| New Jersey | 5 | -- | 5 | 29 | x |
| New Mexico | 3.75 | .75 | 4.5 | 45 | |
| New York | 4 | 4 | 8 | 22 | x |
| North Carolina | 3 | 1 | 4 | 22 | |
| North Dakota | 3 | -- | 3 | 32 | x |
| Ohio | 4 | 1.5 | 5.5 | 31 | x |
| Oklahoma | 2 | 2 | 4 | 22 | |
| Pennsylvania | 6 | -- | 6 | 28 | x |
| Rhode Island | 6 | -- | 6 | 31 | x |
| South Carolina | 4 | -- | 4 | 35 | |
| South Dakota | 4[2] | 2 | 6 | 57 | |
| Tennesse | 4.5 | 2.25 | 6.75 | 49 | |
| Texas | 4 | 1 | 5 | 46 | x |
| Utah | 4 | 1 | 5 | 43 | |
| Vermont | 3 | -- | 3 | 24 | x |
| Virginia | 3 | 1 | 4 | 24 | |
| Washington[1] | 4.6 | .8 | 5.4 | 44 | x |
| West Virginia[1] | 3 | -- | 3 | 21 | |
| Wisconsin | 4 | -- | 4 | 25 | x |
| Wyoming | 3 | 1 | 4 | 40 | |
| Alaska | -- | 5 | 5 | | |
| District of Columbia | 5 | -- | 5 | 19 | x |

[1] Excluding gross receipts or gross income tax.

[2] Becomes 5% July 1, 1980.

Source of revenue data: U.S. Bureau of the Census, State Tax Collections in 1978. Revenue from separate taxes imposed in lieu of sales tax on sales of motor vehicles and hotels and meals has been added.

of the states used 3%; in 1971, 3% was still the most popular (20), but there were 22 above and only 3 below. By 1978, there were almost as many 4s as 3s, with only one below 3% and 27 above. The maximum rate was 4% in 1962, 6% in 1971, 7% in 1978. But there are still only 3 in excess of 5%. In the 1971-78 period, 14 of the rates were increased (one by only 1 percent), but only 2 by as much as 2 percentage points. Two were decreased, but one by only .25% to make way for a similar increase in the local sales tax rate, the other (North Dakota) by 1. Thus the rate changes have been slow and not drastic. The Nebraska rate is adjusted automatically from year to year on the basis of revenue needs, but in a very narrow range.

2. <u>Coverage</u>—In the last decade, there has been little basic trend toward change in structure; such trend as there has been is toward slight broadening of exemptions, rather than broader coverage of the tax, as was occurring to some degree in the 1960s.

TABLE 11

State Sales Tax Rates, Selected Years

| | Number | | | |
|---|---|---|---|---|
| Rate,% | 1938 | 1962 | 1971 | 1978 |
| 2 | 16 | 11 | 3 | 1 |
| 3 | 6 | 20 | 20 | 17 |
| 4 | 0 | 5 | 15 | 16 |
| 5 | 0 | 0 | 6 | 8 |
| 6 | 0 | 0 | 1 | 2 |
| 7 | 0 | 0 | 0 | 1 |

Fractional rates are grouped on the major fraction rule.

a. <u>Food</u>. In most sales tax states, proposals for exemption of food come up in every legislative session or before the voters, and since 1971 exemption has been granted in six additional states:

Kentucky, Louisiana, Michigan, Indiana, North Dakota (which had exempted a few food items previously) and Washington. This exemption causes a substantial revenue loss (20 to 25%), adds to complications in operation and enforcement, and frees, unnecessarily, substantial expenditures of the middle and upper income groups, but it nevertheless has great political appeal. Thus as of May 1, 1979, 21 of the sales tax states exempt food (but not restaurant meals).

A decade ago, there was considerable spread of a superior alternative to food exemption: a credit against income tax (with cash rebate if the credit exceeded income tax liability) representing tax paid on minimum necessary purchases. But the spread has been relatively slow; while the procedure has great advantages over food exemption in terms of equity, protection of revenue, and operation of the tax, it has less political appeal. Three states abandoned the plan: Iowa, Michigan and Indiana, the last two shifting to food exemption instead. Hawaii, Colorado, Nebraska, Mew Mexico and Utah use the system in lieu of food exemption. Two states, Massachusetts and Vermont, provide both the credit and food exemption, thus adding to complications unnecessarily. Idaho provides a credit but no cash refund for low income groups; Wyoming uses the system only for the elderly.

b. Drugs and Medicines. This exemption, which has particular justification because of uneven incidence of medical expenditures, is now provided for prescription drugs in all except 6 states, compared to all except 19 in 1971, and in several for all drugs.

c. Others. One additional state, Rhode Island (making a total of five) has made the mistake of exempting clothing, making the tax more regressive.[1] Several states, most recently Maine and Minnesota, have exempted gas and electricity for home use. But adding exemptions has not been a common pattern.

d. Services. A decade age, there was a move in a number of states to broaden the base by adding specified services. But the trend slackened. There were serious objections to general inclusion of services, still found only in Hawaii and New Mexico, and inclusion of a limited number adds little to revenue and does not make the tax more progressive.[2]

e. Industrial Machinery and Equipment. The sales taxes were presumably designed to reach final consumption expenditures, but as a result of the definition of retail sales used, certain purchases by business firms were brought within the scope of the taxes. Because many commodities may be used for either production or consumption use, exclusion of all nonconsumption purchases is almost impossible under the retail sales tax. But this is not true of industrial machinery and equipment. But once it was brought within the scope of the tax, for political and revenue reasons exclusion is difficult.

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[1] J.M. Schaefer, "Clothing Exemptions and Sales Tax Regressivity," American Economic Review, Vol. 59 (Sept. 1969), pp. 596-99.

[2] David Davies, "The Significance of Taxation of Services for the Pattern of Distribution of Tax Burden by Income Class," Proceedings of the National Tax Association for 1969, pp. 138-46. A similar conclusion was reached by E.O. Nelson, "Progressivity of the Ontario Retail Sales Tax," Canadian Tax Journal, vol. 18 (September-October 1971), pp. 411-15, using Canadian data.

Typically the states that introduced the tax in early years tax these industrial items, while many of those that introduced the tax in a later period do not. There is also an important regional concentration; in general the industrial states, from Wisconsin and Indiana east to the seaboard, exclude the industrial items.

There has been a slight tendency to add the exemption and no tendency to eliminate it (except temporarily in New Jersey). New Jersey restored the exemption in 1977; Rhode Island and Connecticut phased in the exemption over a period of several years, fully effective in 1978. The Illinois legislature enacted a similar provision in 1978. Illinois has been the last major industrial state east of the Mississippi to tax machinery and equipment. The primary motive in these states making the change has been to aid industrial development in the state.

The general trend, therefore, has been some lessening of regressivity by food exemption or credit against income tax (and both in two states) and by the almost complete exemption of drugs and medicines. There is substantial evidence that a sales tax with food taxable is regressive, with food exempt, more or less proportional.

## PART II. THE REVOLT

One of the first bits of evidence of increasing taxpayer dissatisfaction was provided by voter action on bond issues, the aspect of governmental finance most subject to popular vote. Between 1950 and 1959, 79% of all state and local bond issues (by amount) were

approved; from 1960 through 1967, 73 percent, from 1968 through 1975, only 50%, and in 1975, the all time low, 29 percent.[1]

Cities and school districts in Oregon, in which voters must approve budgets when increases exceed specified amounts, were having increasing difficulty in obtaining voter approval, and some schools closed as a result for weeks at a time. But until 1978, most proposals to restrict state or state-local spending were defeated. In June of 1978, however, California voters approved Proposition 13, drastically reducing property taxes and making state and local tax increases much more difficult. Specifically, in brief, the provisions were as follows:

1. Property tax rates are limited to 1% of "full cash value."
2. "Full cash value" is the 1976-77 assessed value figure; the assessments cannot be increased until property is sold or new property constructed, except to the extent of increase in the consumer price index to a maximum of 2% a year.
3. Any future increases in state taxes require a two thirds vote of all members of each house of the legislature.
4. Local governments, by a two thirds vote of the electors, may impose special taxes, but not on real property.

The action of the California voters led to the placing of tax and expenditure limitation measures on the November ballot in a number of states (in many states no such measures are possible and in others, such as Illinois, the vote is not binding). Arizona, Hawaii, Michigan, and Texas voters approved measures limiting the growth in

[1] Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77 (Washington, 1977), p. 74.

state expenditures to the rate of growth in income or related measures (Tennessee had previously done so), but Nebraska voters defeated a similar proposal. Idaho and Nevada voters approved measures to roll back the property tax rates drastically (there is doubt about the constitutionality of the former, and in Nevada the voters must approve a second time). But Oregon voters turned down a similar measure, as did Michigan voters (who approved a milder proposal). South Dakota voters approved a 2/3 vote requirement for tax increases. As a consequence of this voter action, governors in a number of states proposed substantial cuts in expenditures in the 1979-80 budgets.

## Causes of the Revolt

How can this relatively sudden change in voter attitudes be explained?

Tax Increases? One obviously possible explanation was that taxes had been rising sharply.

Popular literature is fond of referring to soaring and skyrocketing state and local tax burdens. What is the evidence? Table 12, reproduced from Tax Foundation sources, shows that state and local expenditure (from own sources) as a percentage of GNP is virtually the same as it was a decade ago and less than in the mid seventies. Expressed as a percentage of personal income, the figures show some rise (Table 13), as personal income has risen less rapidly than GNP, but the increase over a decade relative to incomes has been relatively small, as has been the increase in Federal taxes and expenditures.

Data of property taxes as a percentage of GNP and of personal income show an increase up to 1971-72 and a decline since, as shown in Tables 14 and 15. The most hated of the major state and local taxes has not been increasing at all relative to personal incomes.

Table

## Government Expenditures and Gross National Product

Calendar Years 1960-1978

(Dollar Amounts in Billions)

| | | Government expenditures[a] | | | | | |
|---|---|---|---|---|---|---|---|
| | | Amount[b] | | | As a percentage of gross national product | | |
| Year | Gross national product | Total | Federal | State and local | Total | Federal | State and local |
| 1960 | $506.0 | $136.4 | $ 93.1 | $ 43.3 | 27.0 | 18.4 | 8.6 |
| 1961 | 523.3 | 149.1 | 101.9 | 47.2 | 28.5 | 19.5 | 9.0 |
| 1962 | 563.8 | 160.5 | 110.4 | 50.1 | 28.5 | 19.6 | 8.9 |
| 1963 | 594.7 | 167.8 | 114.2 | 53.6 | 28.2 | 19.2 | 9.0 |
| 1964 | 635.7 | 176.3 | 118.2 | 58.1 | 27.7 | 18.6 | 9.1 |
| 1965 | 688.1 | 187.8 | 123.8 | 64.0 | 27.3 | 18.0 | 9.3 |
| 1966 | 753.0 | 213.6 | 143.6 | 70.0 | 28.4 | 19.1 | 9.3 |
| 1967 | 796.3 | 242.4 | 163.7 | 78.7 | 30.4 | 20.6 | 9.9 |
| 1968 | 868.5 | 268.9 | 180.6 | 88.3 | 31.0 | 20.8 | 10.2 |
| 1969 | 935.5 | 285.6 | 188.4 | 97.2 | 30.5 | 20.1 | 10.4 |
| 1970 | 982.4 | 311.9 | 204.2 | 107.7 | 31.7 | 20.8 | 11.0 |
| 1971 | 1,063.4 | 340.5 | 220.6 | 119.9 | 32.0 | 20.7 | 11.3 |
| 1972 | 1,171.1 | 370.9 | 244.7 | 126.2 | 31.7 | 20.9 | 10.8 |
| 1973 | 1,306.6 | 404.9 | 265.0 | 139.9 | 31.0 | 20.3 | 10.7 |
| 1974 | 1,412.9 | 458.2 | 299.3 | 158.9 | 32.4 | 21.2 | 11.2 |
| 1975 | 1,528.8 | 532.8 | 356.8 | 176.0 | 34.8 | 23.3 | 11.5 |
| 1976 | 1,700.1 | 570.4 | 385.2 | 185.2 | 33.6 | 22.7 | 10.9 |
| 1977 | 1,887.2 | 621.8 | 422.6 | 199.2 | 33.0 | 22.4 | 10.6 |
| 1978 I[c] | 1,992.0 | 659.1 | 448.8 | 210.3 | 33.1 | 22.5 | 10.6 |
| 1978 II[c] | 2,087.5 | 670.1 | 448.3 | 221.8 | 32.1 | 21.5 | 10.6 |
| 1978 III[c] | 2,141.1 | 693.9 | 466.1 | 227.8 | 32.4 | 21.8 | 10.6 |

[a] Expenditures on income and product accounts. They are on an accrual basis, include trust account transactions with the public, and exclude capital transactions that do not represent current production.

[b] Federal data include expenditures for grants-in-aid to state and local governments. These amounts have been excluded from state and local expenditures to avoid duplication.

[c] Seasonally adjusted at annual rates.

Source: Department of Commerce, Bureau of Economic Analysis, and Tax Foundation computations.

Reproduced from Tax Foundation, Monthly Tax Features, Vol. 23, January 1979p.2

Table 13

STATE AND LOCAL TAX REVENUE IN RELATION TO STATE PERSONAL INCOME, BY STATE AND REGION, SELECTED YEARS, 1953-1977

1. Tax Revenue as a Percent of Personal Income

| State & Region | 1977 | 1975 | 1965 | 1953 | Annual Average Percent Increase or Decrease (-) 1975-77 | 1965-75 | 1953-65 |
|---|---|---|---|---|---|---|---|
| United States 1/ | 12.80 | 12.29 | 10.45 | 7.58 | 2.1 | 1.6 | 2.7 |
| New England | 13.59 | 12.79 | 9.97 | 7.90 | 3.1 | 2.5 | 2.0 |
| Connecticut | 12.00 | 10.82 | 9.08 | 6.06 | 5.3 | 1.8 | 3.4 |
| Maine | 12.44 | 12.59 | 10.98 | 8.95 | -0.6 | 1.4 | 1.7 |
| Massachusetts | 15.14 | 14.20 | 10.21 | 8.77 | 3.3 | 3.4 | 1.3 |
| New Hampshire | 10.62 | 10.75 | 9.51 | 8.28 | -0.6 | 1.2 | 1.2 |
| Rhode Island | 12.64 | 11.94 | 10.19 | 7.02 | 2.9 | 1.6 | 3.2 |
| Vermont | 15.18 | 15.46 | 12.72 | 9.62 | -0.9 | 2.0 | 2.4 |
| Mideast 1/ | 14.66 | 13.94 | 10.54 | 7.46 | 2.5 | 2.8 | 2.9 |
| Delaware | 11.80 | 11.66 | 8.98 | 4.21 | 0.6 | 2.6 | 6.5 |
| Maryland | 12.95 | 12.26 | 9.34 | 6.33 | 2.8 | 2.8 | 3.3 |
| New Jersey | 12.61 | 11.59 | 9.07 | 6.59 | 4.3 | 2.5 | 2.7 |
| New York | 17.68 | 16.65 | 11.87 | 8.79 | 3.0 | 3.4 | 2.5 |
| Pennsylvania | 11.88 | 11.68 | 9.47 | 6.17 | 0.9 | 2.1 | 3.6 |
| Great Lakes | 11.72 | 11.35 | 9.73 | 6.78 | 1.6 | 1.6 | 3.1 |
| Illinois | 11.73 | 11.73 | 8.89 | 6.37 | 0.0 | 2.8 | 2.8 |
| Indiana | 10.54 | 11.15 | 10.24 | 7.08 | -2.8 | 0.9 | 3.1 |
| Michigan | 13.04 | 11.66 | 10.67 | 7.31 | 5.8 | 0.9 | 3.2 |
| Ohio | 10.00 | 9.69 | 8.64 | 5.87 | 1.6 | 2.0 | 3.3 |
| Wisconsin | 14.36 | 13.83 | 12.55 | 8.91 | 1.9 | 1.0 | 2.9 |
| Plains | 12.14 | 11.73 | 10.83 | 8.25 | 1.7 | 0.8 | 2.3 |
| Iowa | 12.03 | 12.14 | 11.63 | 9.22 | -0.4 | 0.4 | 2.0 |
| Kansas | 11.32 | 10.86 | 11.70 | 8.71 | 2.1 | -0.7 | 2.5 |
| Minnesota | 14.70 | 13.94 | 12.72 | 9.38 | 2.7 | 0.9 | 2.6 |
| Missouri | 10.26 | 10.35 | 8.74 | 6.14 | -0.4 | 1.7 | 3.0 |
| Nebraska | 12.78 | 10.96 | 9.34 | 7.69 | 8.0 | 1.6 | 1.6 |
| North Dakota | 11.84 | 10.95 | 11.77 | 11.27 | 4.0 | -0.7 | 0.4 |
| South Dakota | 12.35 | 11.60 | 12.60 | 10.79 | 3.2 | -0.8 | 1.3 |
| Southeast | 10.91 | 10.70 | 10.04 | 7.86 | 1.0 | 0.6 | 2.1 |
| Alabama | 10.00 | 9.94 | 9.74 | 7.00 | 0.3 | 0.2 | 2.8 |
| Arkansas | 10.18 | 9.90 | 9.77 | 7.92 | 1.4 | 0.1 | 1.8 |
| Florida | 10.47 | 9.94 | 10.53 | 9.20 | 2.6 | -0.6 | 1.1 |
| Georgia | 11.15 | 10.79 | 9.96 | 7.67 | 1.7 | 0.8 | 2.2 |
| Kentucky | 11.28 | 11.32 | 9.62 | 6.47 | -0.2 | 1.6 | 3.4 |
| Louisiana | 12.01 | 12.99 | 12.05 | 10.43 | -3.8 | 0.8 | 1.2 |
| Mississippi | 11.82 | 11.84 | 11.85 | 9.37 | -0.1 | * | 2.0 |
| North Carolina | 10.98 | 10.58 | 9.97 | 8.25 | 1.9 | 0.6 | 1.6 |
| South Carolina | 10.77 | 10.46 | 9.67 | 8.61 | 1.5 | 0.8 | 1.0 |
| Tennessee | 10.73 | 10.04 | 9.71 | 7.32 | 3.4 | 0.3 | 2.4 |
| Virginia | 10.87 | 10.67 | 8.55 | 6.09 | 0.9 | 2.2 | 2.9 |
| West Virginia | 11.64 | 12.27 | 9.85 | 6.81 | -2.6 | 2.2 | 3.1 |
| Southwest | 11.10 | 11.06 | 10.16 | 7.34 | 0.2 | 0.9 | 2.7 |
| Arizona | 14.42 | 13.26 | 12.15 | 8.50 | 4.3 | 0.9 | 3.0 |
| New Mexico | 11.96 | 13.54 | 12.16 | 8.66 | -6.0 | 1.1 | 2.9 |
| Oklahoma | 10.65 | 10.53 | 10.44 | 9.07 | 0.6 | 0.1 | 1.2 |
| Texas | 10.56 | 10.56 | 9.60 | 6.68 | 0.0 | 1.0 | 3.1 |
| Rocky Mountain | 12.99 | 11.78 | 11.61 | 8.60 | 5.0 | 0.1 | 2.5 |
| Colorado | 12.97 | 11.61 | 11.40 | 8.93 | 5.7 | 0.2 | 2.1 |
| Idaho | 11.70 | 11.02 | 12.14 | 9.00 | 3.0 | -1.0 | 2.5 |
| Montana | 13.60 | 12.57 | 11.78 | 7.62 | 4.0 | 0.7 | 3.7 |
| Utah | 12.59 | 11.63 | 11.78 | 8.44 | 4.0 | -0.1 | 2.8 |
| Wyoming | 15.48 | 13.43 | 11.28 | 8.73 | 7.4 | 1.8 | 2.2 |
| Far West 2/ | 14.84 | 14.07 | 11.79 | 8.34 | 2.7 | 1.8 | 2.9 |
| California | 15.49 | 14.59 | 11.98 | 8.41 | 3.0 | 2.0 | 3.0 |
| Nevada | 12.93 | 13.23 | 10.69 | 7.93 | -1.1 | 2.2 | 2.5 |
| Oregon | 12.93 | 12.13 | 10.94 | 8.24 | 3.2 | 1.0 | 2.4 |
| Washington | 12.23 | 12.06 | 11.18 | 8.07 | 0.7 | 0.8 | 2.8 |
| Alaska | 23.48 | 12.45 | 8.11 | 5.03 3/ | 37.3 | 4.4 | 4.1 |
| Hawaii | 14.07 | 14.44 | 11.72 | 8.23 3/ | -1.3 | 2.1 | 3.0 |

*Less than 0.05 percent.
1/Excluding the District of Columbia.
2/Excluding Alaska and Hawaii.

Reproduced from Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1978-79 (Washington:1979), Table 24.

TABLE 14

Property Taxes as a Percentage of GNP, Selected Years 1902-1977

| Year | Property Tax Collections | Property Taxes as Percent of GNP |
|---|---|---|
| 1976-77 | $62,535 | 3.5% |
| 1971-72 | 41,500 | 4.0 |
| 1969-70 | 34,083 | 3.7 |
| 1964-65 | 22,583 | 3.6 |
| 1962 | 19,054 | 3.4 |
| 1960 | 16,405 | 3.3 |
| 1954 | 9,967 | 2.7 |
| 1950 | 7,349 | 2.6 |
| 1946 | 4,986 | 2.4 |
| 1944 | 4,604 | 2.2 |
| 1942 | 4,537 | 2.9 |
| 1940 | 4,430 | 4.4 |
| 1936 | 4,093 | 5.0 |
| 1932 | 4,487 | 7.7 |
| 1927 | 4,730 | 4.9 |
| 1922 | 3,321 | 4.5 |
| 1913 | 1,332 | 3.3 |
| 1902 | 706 | 2.9 |

Sources: Advisory Commission on Intergovernmental Relations, Financing Schools and Property Tax Relief - a State Responsibility, (Washington: 1973), p. 16 and Bureau of the Census Publications.

Table 15.

## — STATE-LOCAL PROPERTY TAXES PER $1,000 OF STATE PERSONAL INCOME BY STATE, AND REGION, SELECTED YEARS, 1942-1977

| State and Region | 1977 Amount | 1977 As % of U.S. Average | 1972 Amount | 1972 As % of U.S. Average | 1967 Amount | 1967 As % of U.S. Average | 1957 Amount | 1957 As % of U.S. Average | 1942 Amount | 1942 As % of U.S. Average |
|---|---|---|---|---|---|---|---|---|---|---|
| United States | $46 | 100 | $50 | 100 | $45 | 100 | $37[1] | 100 | $37[1] | 100 |
| New England | (69) | (128) | (66) | (132) | (52) | (116) | (45) | (122) | (43) | (116) |
| Maine | 45 | 98 | 66 | 132 | 51 | 113 | 44 | 119 | 45 | 122 |
| New Hampshire | 66 | 143 | 73 | 146 | 59 | 131 | 51 | 138 | 50 | 135 |
| Vermont | 62 | 135 | 73 | 146 | 50 | 111 | 46 | 124 | 43 | 116 |
| Massachusetts | 74 | 161 | 73 | 146 | 59 | 131 | 52 | 141 | 51 | 138 |
| Rhode Island | 52 | 113 | 50 | 100 | 45 | 100 | 39 | 105 | 35 | 85 |
| Connecticut | 58 | 122 | 64 | 128 | 48 | 107 | 36 | 97 | 32 | 86 |
| Mideast | (41) | (89) | (42) | (84) | (38) | (84) | (30) | (81) | (34) | (92) |
| New York | 63 | 137 | 58 | 116 | 52 | 116 | 43 | 116 | 53 | 143 |
| New Jersey | 63 | 137 | 67 | 134 | 54 | 120 | 45 | 122 | 52 | 141 |
| Pennsylvania | 31 | 67 | 34 | 68 | 32 | 71 | 25 | 68 | 36 | 97 |
| Delaware | 19 | 41 | 21 | 42 | 19 | 42 | 12 | 32 | 12 | 32 |
| Maryland | 39 | 85 | 40 | 80 | 42 | 93 | 31 | 84 | 27 | 73 |
| District of Columbia | 29 | 63 | 32 | 64 | 29 | 64 | 25 | 68 | 22 | 59 |
| Great Lakes | (44) | (96) | (56) | (112) | (45) | (100) | (39) | (105) | (37) | (100) |
| Michigan | 49 | 107 | 53 | 106 | 43 | 96 | 38 | 103 | 34 | 92 |
| Ohio | 39 | 85 | 44 | 88 | 43 | 96 | 32 | 86 | 29 | 78 |
| Indiana | 39 | 85 | 59 | 118 | 47 | 104 | 38 | 103 | 35 | 95 |
| Illinois | 43 | 93 | 51 | 102 | 42 | 93 | 37 | 100 | 39 | 105 |
| Wisconsin | 49 | 107 | 72 | 144 | 51 | 113 | 49 | 132 | 48 | 130 |
| Plains | (47) | (102) | (56) | (112) | (58) | (129) | (51) | (138) | (49) | (132) |
| Minnesota | 44 | 96 | 58 | 116 | 60 | 133 | 50 | 135 | 52 | 141 |
| Iowa | 47 | 103 | 60 | 120 | 56 | 124 | 47 | 127 | 42 | 114 |
| Missouri | 33 | 72 | 40 | 80 | 38 | 84 | 30 | 81 | 30 | 81 |
| North Dakota | 39 | 85 | 48 | 96 | 59 | 131 | 61 | 165 | 78 | 211 |
| South Dakota | 60 | 130 | 70 | 140 | 70 | 156 | 60 | 162 | 55 | 149 |
| Nebraska | 59 | 128 | 59 | 118 | 67 | 149 | 53 | 143 | 44 | 119 |
| Kansas | 47 | 102 | 54 | 108 | 55 | 122 | 56 | 151 | 43 | 118 |
| Southeast | (25) | (54) | (27) | (54) | (27) | (60) | (24) | (65) | (24) | (65) |
| Virginia | 31 | 67 | 31 | 62 | 28 | 62 | 24 | 65 | 17 | 46 |
| West Virginia | 21 | 46 | 25 | 50 | 27 | 60 | 18 | 49 | 25 | 68 |
| Kentucky | 21 | 46 | 23 | 46 | 26 | 58 | 28 | 78 | 30 | 81 |
| Tennessee | 27 | 59 | 29 | 58 | 28 | 62 | 24 | 65 | 28 | 76 |
| North Carolina | 26 | 57 | 28 | 56 | 26 | 58 | 23 | 62 | 22 | 59 |
| South Carolina | 25 | 54 | 26 | 52 | 20 | 44 | 20 | 54 | 24 | 65 |
| Georgia | 35 | 76 | 33 | 66 | 30 | 67 | 25 | 68 | 22 | 59 |
| Florida | 35 | 76 | 38 | 76 | 42 | 93 | 30 | 81 | 31 | 84 |
| Alabama | 12 | 26 | 15 | 30 | 17 | 38 | 15 | 41 | 17 | 46 |
| Mississippi | 26 | 57 | 28 | 56 | 31 | 69 | 30 | 81 | 31 | 84 |
| Louisiana | 19 | 41 | 27 | 54 | 24 | 53 | 22 | 59 | 27 | 73 |
| Arkansas | 23 | 50 | 25 | 50 | 26 | 58 | 23 | 62 | 18 | 49 |
| Southwest | (35) | (76) | (38) | (76) | (40) | (89) | (32) | (86) | (31) | (84) |
| Oklahoma | 24 | 52 | 29 | 58 | 34 | 76 | 28 | 78 | 30 | 81 |
| Texas | 39 | 85 | 42 | 84 | 41 | 91 | 35 | 95 | 31 | 84 |
| New Mexico | 22 | 48 | 26 | 52 | 26 | 58 | 21 | 57 | 27 | 73 |
| Arizona | 55 | 120 | 54 | 108 | 58 | 129 | 42 | 114 | 35 | 95 |
| Rocky Mountain | (50) | (109) | (54) | (108) | (56) | (124) | (48) | (130) | (44) | (118) |
| Montana | 64 | 139 | 74 | 148 | 65 | 144 | 57 | 154 | 57 | 154 |
| Idaho | 37 | 80 | 44 | 88 | 44 | 98 | 47 | 127 | 42 | 114 |
| Wyoming | 63 | 137 | 59 | 118 | 69 | 153 | 48 | 130 | 38 | 103 |
| Colorado | 49 | 107 | 51 | 102 | 54 | 120 | 47 | 127 | 46 | 124 |
| Utah | 37 | 80 | 43 | 86 | 50 | 111 | 41 | 111 | 38 | 103 |
| Far West[1] | (50) | (109) | (56) | (112) | (48) | (107) | (37) | (100) | (29) | (78) |
| Washington | 38 | 83 | 47 | 94 | 35 | 78 | 26 | 70 | 20 | 54 |
| Oregon | 58 | 126 | 62 | 124 | 52 | 116 | 44 | 118 | 31 | 84 |
| Nevada | 45 | 89 | 44 | 88 | 44 | 98 | 34 | 92 | 32 | 86 |
| California | 65 | 141 | 72 | 144 | 62 | 138 | 44 | 119 | 33 | 89 |
| Alaska | 135 | 293 | 25 | 50 | 23 | 51 | (12) | (32) | N.A. | N.A. |
| Hawaii | 24 | 52 | 27 | 54 | 27 | 60 | (15) | (41) | N.A. | N.A. |

Note: Regional dollar amounts are unweighted averages.
N.A. — Not available.
[1]Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of U.S. Bureau of the Census, Governments Division.

Reproduced from Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1978-79 (Washington:1979), Table 41.

As shown in Fig. 1, farm property taxes as a percentage of farm values has remained almost constant for a long period. Table 16 shows that in Illinois, property taxes as a percentage of farm net income is lower in recent years than in most of the 1960s.

TABLE 16

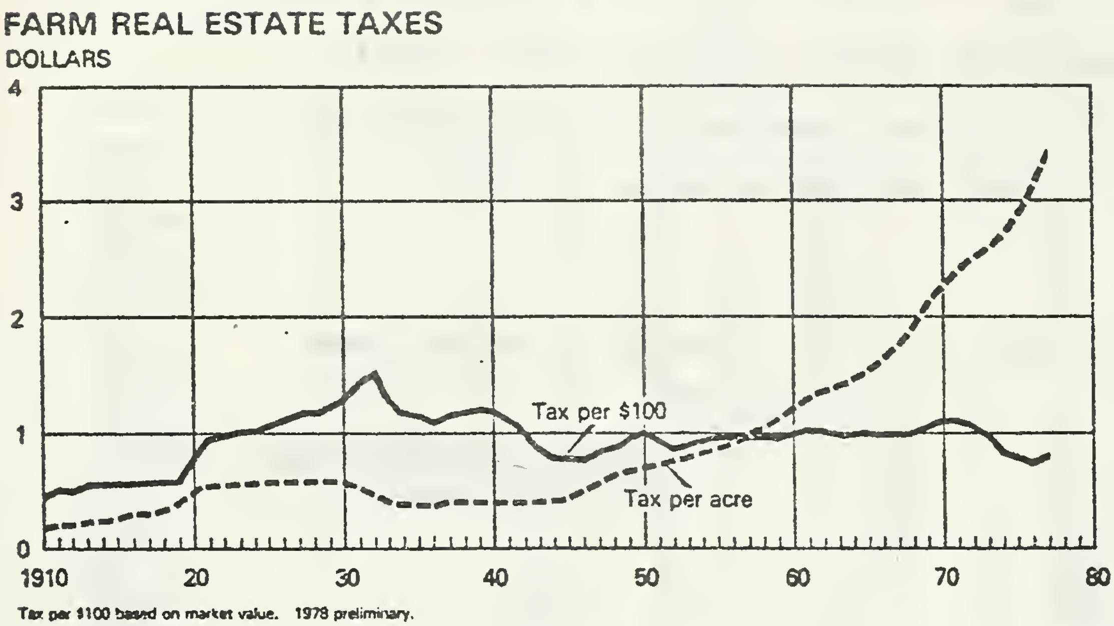
Illinois Farm Property Taxes as a Percentage of Farm Net Income, Selected Years

| Year | Farm Property Taxes as Percentage of Farm Net Income |
|---|---|
| 1962 | 12.4 |
| 1964 | 14.7 |
| 1966 | 11.7 |
| 1968 | 17.8 |
| 1970 | 19.6 |
| 1971 | 17.5 |
| 1972 | 14.9 |
| 1973 | 7.6 |
| 1974 | 11.1 |
| 1975 | 8.3 |
| 1976 | 13.0 |

Source: H.G. Halcrow, et. al., Illinois Farm Property Taxes in the 1980s, (mimeo., Urbana, 1979).

Furthermore, there was no overall shift toward the taxes regarded as least fair. There was a slight shift away from the property tax, the levy consistently regarded as the worst (Table 17), and some shift from the motor fuel tax, regarded as the most acceptable, to the other levies, but on the whole the changes were not significant. Table 16 also indicates that there was no sharp increase in dislike of the property tax, and that the property tax is far more unpopular in the west than elsewhere - despite the high property taxes in much of New England.

Fig. 1




Source: U.S.D.A., Handbook of Agricultural Charts, Agricultural Handbook 551, November 1978.

Table 17.

*Table 1*

**Which Do You Think is the Worst Tax—**
**That is, the Least Fair?**

| | Percent of Total U.S. Public | | | | |
|---|---|---|---|---|---|
| | May 1978 | May 1977 | May 1975 | April 1974 | May 1973 |
| Federal Income Tax | 30% | 28% | 28% | 30% | 30% |
| State Income Tax | 11 | 11 | 11 | 10 | 10 |
| State Sales Tax | 18 | 17 | 23 | 20 | 20 |
| Local Property Tax | 32 | 33 | 29 | 28 | 31 |
| Don't Know | 10 | 11 | 10 | 14 | 11 |

For additional detail see pages 8 and 32.

*Table 1a*

**Which Do You Think is the Worst Tax—**
**That is, the Least Fair?**
**(May 1978)**

| | Percent of | | | | |
|---|---|---|---|---|---|
| | **Total U.S. Public** | **North-east** | **North-Central** | **South** | **West** |
| Federal Income Tax | 30% | 25% | 34% | 33% | 23% |
| State Income Tax | 11 | 18 | 11 | 6 | 11 |
| State Sales Tax | 18 | 21 | 15 | 19 | 19 |
| Local Property Tax | 32 | 27 | 35 | 27 | 44 |
| Don't Know/No Answer | 10 | 9 | 7 | 17 | 5 |

Reproduced from Advisory Commission on Intergovernmental Relations, Changing Public Attitudes on Governments and Taxes, 1978, p.1

There were, however, certain changes in taxes that were adversely affecting various people. At the Federal level, and to a lesser extent at the state level, inflation was pushing persons into higher tax brackets and increasing their tax liabilities when their real incomes were not rising. At the same time, social security payroll taxes have been rising - the only type of levy in the United States that has risen significantly in the recent years. These are not state-local levies - but nevertheless produce reactions against taxes generally. Adjustments in the tax structure in general offset much of these increases for the lower income groups - but there was no equivalent offset for the large numbers of middle income voters.

In addition, in some states, and particularly California, some homeowners experienced very rapid increases in property taxes, as house values rose much more rapidly than the general price level and assessments kept pace with increased values - by no means a universal phenomenon nationally.

All in all, however, changes in taxes can hardly explain the massive change in attitude that appears to have occurred toward state-local taxes. Other forces must be explored.

Inflation? It is clear that the great majority of the population regard inflation as the number one problem facing the economy. A portion of the population - perhaps a quarter - has been actually injured by inflation because their incomes have lagged behind increases in the cost of living. Older, retired persons are the most obvious but other fixed income receivers are also injured. Most of the population clearly is not adversely affected; incomes have kept up

with the cost of living, and values of typical assets have risen even more rapidly. The evidence for this is that per capita real incomes have risen, though slowly (there was a decline in 1975). But many persons see only one side of the picture; they intensely dislike the increasing cost of living - without recognizing that their incomes have kept pace, or more than kept pace.

Accompanying this hatred of inflation is the very widespread conviction that inflation results from government deficits. The states as a whole have run a surplus in recent year. But, unable to hit the deficit spender, the Federal government directly, the voters hit at anything in reach - and this means states and local governments when they have the opportunity.

Dissatisfaction with Government Efficiency and Government Services? Another element is the widespread belief that all levels of government are inefficient and corrupt and do not provide high quality service. Many families are critical of the education their children receive, and complain about too many "frills."[1] Others are disturbed at the inability of the police to stop large scale crime, especially in metropolitan areas, and believe that criminals are coddled. Watergate, G.S.A., and comparable patterns on the part of some state and local officials further the view that corruption is widespread. The belief that government services could be provided at half the present cost is nonsensical - but it is widely accepted.

In addition, voters in many cities are unhappy with the effects of unionization of municipal and employees and teachers. Strikes of school teachers, policemen and firemen are repugnant, as a matter

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[1]A California survey suggests that the vote for Proposition 13 did not reflect significant hostility to the school system. "Public Opinion and Proposition 13," Finance Facts, published by Education Finance Center, Education Commission of the States, Denver, Special Issue, Feb., 1979.

of principle, to many, and the inconvenience resulting from closed schools magnifies this attitude. There is little doubt that unions in some cities have pushed wages of certain types of municipal employees above those in the private sector for comparable work - quite the reverse of a few decades ago. And the noncompromising attitudes of some union leaders in these fields have aggravated the attitudes. A portion of the vote for Proposition 13 sought to teach the public employees a lesson - that the taxpayers have the final say, after all. In Canada, the imposition of wage and price controls was designed more to keep the pay of government employees in line than to control the wages in the private sector.

There is well known and long standing concern with the welfare programs - the belief that there is extensive chiselling and that the programs give recipients incentives not to work. And there is still a minority of the population that believes that the appropriate solution for the low income groups is to send them over the hill to the poor house.

The problems with AMTRAK and CONRAIL and BART (Bay Area Rapid Transit) have furthered the belief that governments never do anything well, while the public forgets about the gross mismanagement of Penn Central and the current financial problems of Chrysler, Kentucky Fried Chicken, and A&P.

Irritating Regulatory Policies? Another element has been the introduction in the last decade of a number of regulatory measures which, while having justification and support, irritate many persons. Different ones irritate different persons - but combined, the effects

are not negligible. Only a few examples - some perhaps petty - can be noted. The 55 mile an hour speed limit is one. However significant the gains in lessening accidents and saving fuel may be, many drivers feel that it is an unreasonable restriction on their freedom. Mandatory helmet laws for motorcycle riders create similar resentment. Pollution controls have been a source of tribulation to many firms and have resulted in some instances in loss of employment. No matter how strongly persons favor pollution control in principle, they are resentful if the measures result in loss of jobs. Anyone who has had the experience of being stranded in a remote community with a car taking only unleaded gas when the gas stations have no such gas is hardly sympathetic to this regulation. Similarly, anyone who has struggled in the middle of the night with an aspirin bottle cap that will not come off does not look with favor upon the government action that requires child-proof caps. Many persons quite legitimately feel that many such rules are issued without regard to the costs as compared to the benefits - that bureaucrats become obsessed with the particular change and do not consider the cost side at all. The auto interlock mechanism is perhaps the prime example.

There has also been widespread belief that long standing regulatory policies of the Interstate Commerce Commission and the Civil Aeronautics Board have been primarily concerned with protection of the industries and not of the public and have led to wasteful empty truck movements and excessively high air fares and at the same time have not prevented deterioration of the railroads.

Minority Rights? A basic rule for the satisfactory functioning of a democratic society is that while the majority must rule, the rights of minorities must be protected. For a long period this second rule was violated, at least as far as certain minorities were concerned. The last two decades have seen great progress in the improvement of their position. And probably the great majority of the population regards this as a desirable change, regarding improvement of the position of minorities as a public good. But in the process obviously many individuals have felt harmed by the procedures and programs. There is always a basic issue of just how far the majority is willing to go in improving the position of minorities. In the end the will of the majority must prevail, and if it temporarily is prevented from doing so by institutional factors, the result is a backlash against government generally, including taxes. And the absolute rights position taken by some minority groups increases the danger of this type of backlash.

Several examples will illustrate the argument. Attempts to ensure equal treatment of women, Blacks, and other minorities have resulted in a very substantial amount of paper work for business firms and universities, some of which appears to be highly unproductive in the attainment of the objectives. The line between increased minority participation and outright quotas is a very fine one, as witnessed by the Bakke case and many persons object to the principle of quotas. Universities, schools and government agencies alike feel that at times they are caught in a cross fire of conflicting priorities - veterans vs minorities, for example - and this has led to the Sears suit. Busing for school integration has been highly unpopular with many

families who fear deterioration of schooling for their children and dislike the long bus rides that may result. Not all this opposition to busing reflects dislike of integration of schools, per se, as it did initially in the south.

In the field of women's rights, changes in terminology to avoid obviously sexist implications are generally accepted, but other changes have proved to be annoying to many and to result in awkward grammar. To many persons the word "chairperson" is very irritating. And the Federal government has virtually come to blows with the commercial fishing industy over its insistance that fishermen are to be called "fishers."

Finally, some actions and proposals of governments in the interests of minority rights appear to be ridiculous - involving very large costs for very little benefit. The extreme case is the proposed requirement that all public transportation facilities be equipped to handle wheel chairs. The cost is estimated to be $8 billion or more and with some older rapid transit systems the physical problems are almost insurmountable. This money cannot come from transit users, since the transit systems cannot cover costs as it is and provide desired service; it must come from the taxpayer. The popular reaction is aggravated by the insistance of some leaders of the handicapped groups that the right to use all transport vehicles is an absolute right and costs are not relevant - even if costs took the entire Federal budget. It is estimated that equipping the new Washington Metro so that it can be used by the handicapped costs $2,000 per ride of wheelchair users. To many, including many handicapped, there are far more efficient ways of providing mobility.

Universities and colleges are subject to similar requirements by the Federal government - but no Federal money is provided for the purpose. It is important, by common consent, that some colleges and universities be available to the handicapped, but there is litle justification, as seen by many persons, that all facilities be so adapted.

Obviously not all persons are affected by all of these irritations. But the total number of persons affected by various ones is obviously substantial - and without question a source of taxpayer revolt - a reaction against financing activities that produce the irritations.

In summary: it could be argued that in a sense the voters as a whole have come to conclude that the benefits from public goods, from adjusting for externalities, from redistribution of income are not as great as they anticipated they would be. Alternatively it may be argued that the voters have come to conclude that legislative bodies have gotten out of hand; by log rolling and pork barreling they have pushed programs beyond the limits the majority of society make. But both of these statements are simplistic; much of the anti-tax sentiment has little to do with taxes per se. The votes are votes against inflation and irritating regulations and government actions, not just against taxes.

The Dangers of the Taxpayer Revolt

One of the greatest dangers of the revolt is irrational behavior, - voter reaction against government becoming so strong, especially when fed by skillful proponents of lower taxes, that it produces results that are not rational in terms of the considered preferences

of the voters. Their reactions are much like yanking the telephone off the wall in response to reaching a wrong number or smashing a door open when the lock is sticking.

Proposition 13 provides a good example of irrationality. First, one of the chief beneficiaries was the U.S. Treasury, since state taxes are deductable for Federal income taxes. The result is a transfer of perhaps a billion dollars of real income from Californians to the rest of the country annually. Secondly, a very large portion of the tax savings went to business firms, and much of this to large firms. The Wall Street Journal reports that of the total of $6.4 billion tax cut only $2.3 billion went to homeowners (and much of this was lost through higher income tax payments), $1.2 billion to landlords, and $2.9 billion to business.[1] For example, the Journal reports tax savings of $47 million to Standard Oil of California, $12 million to Getty Oil, $20 million to the Southern Pacific Railroad, $10 million to Atlantic Richfield and at least this much to two other oil companies that will not release their data. Furthermore the Journal reports that many firms have not been passing the tax savings forward to consumers. The public utilities did - but much of the gain went to large industrial customers.

While tax savings to business firms obviously offer some advantages, it is hard to believe that the California voters really would rationally seek to aid Standard Oil to the extent of nearly $50 million dollars a year.

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[1]Feb. 13, 1979.

Proposition 13 contains another provision that has potential for serious nuisance and economic distortion: the rule that assessments of property cannot be raised until the property is transferred. Such a rule is irrational by any standards, and will encourage freezing of property in the hands of the present owners, as well as creating numerous interpretative questions.

A significant example of irresponsible behavior on the part of state legislatures reacting to the taxpayer revolt is their endorsement of the calling of a constitution convention to provide for the requirement of an annually balanced Federal budget. It is believed that such a convention can consider other matters as well, and could easily end up in a battle over abortion and ERA, for example, rather than over the Federal budget. Such a straight jacket amendment would render effective fiscal policy impossible and is irrational from the standpoint of the states because they would almost certainly be the first losers - revenue sharing would be the first budget item to be eliminated. The proposal is based upon the assumption that the Federal deficit is the source of inflation, a widely held view that is almost certainly incorrect. The deficit is far too small as a percentage of total spending in the economy to have any significant effect - it is equal to about 1.5% of GNP.

Quite apart from irrationality, there are some serious objections to the meat-axe tax reductions that Proposition 13 and similar measures produce. One is the drastic cutting of "unprotected" services. The initial impact in California appears to have been on libraries and parks. One tendency is to freeze state and local employee wages

and welfare payments. The former causes loss in personnel and in morale, the latter, inequity by usual standards. The more moderate proposals in other states do not have this "meat axe" effect.

Secondly, the movement is leading to constitutional requirements for two thirds or similar requirements to raise taxes. Such a rule substitutes minority rule for majority rule; while there may be some merit at times for requirements in excess of a majority, it is hard to believe that tax increases constitute one of them. Sixty-six percent of the population of a state may strongly favor increased expenditures for various purposes and is willing to vote higher taxes to pay for them - but the 34 percent minority opposing can block the change to eternity. One voter in opposition equals 2 votes in favor - a violation of the one man vote rule if there ever was.

A further undesirable consequence is the potential effect of the centering of the attack upon the property tax in leading to drastic reductions in this levy. A property tax with adequate circuit breaker provisions to protect the poor and improved administration has significant advantages. It is the only tax from which school districts can effectively raise large sums of money and thus maintain some financial autonomy. It is the only means by which local governments can obtain substantial tax revenue from outside-owned business firms gaining large benefits from the local community. Properly designed, it is not seriously regressive. It avoids the potential adverse effects of the marginal income tax rates affecting additional income earned. Any sharp reduction in property taxes will almost certainly raise property values, concentrating the gain in the hands

of those persons owning property at the time of the reduction and making it more difficult for young couples to purchase homes and young farmers to acquire farms. The alternatives - higher sales and state income taxes - are not without their own disadvantages.

An anomaly of the California tax action is that it greatly reduces the financial autonomy of the local units, shifting power to the states and likely leading to increasing demands on Washington. Yet the local units are the ones in which voters have greatest direct control, and this shift is completely contrary to the principles of the conservatives who support tax revolts.

## The Implications for Education

A recent survey in California by the Education Finance Center of the Education Commission of the States suggests that education was not a major target of the affirmative votes for Proposition 13.[1] Interviews of some 1,049 persons showed the public schools were second only to police and fire departments as categories that the persons did not wish cut back. Welfare was by far the category most favored for cutback, followed by child day care and recreation and parks. But nevertheless the general anti-tax sentiment which Proposition 13 reflects has serious potential consequences for schools. The attack is aimed more directly at the property tax than at any other levy and of course, despite the relative increase in state funding, this levy remains the chief source of school financing. Further increases

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[1] "Public Opinion and Proposition 13, Attitudes of Californians toward Education and the Implementation of Proposition 13", _Finance Facts_, Special Issue, Feb. 1979.

in state funding can be obtained, in any magnitude, only by higher state taxes or taking of funds from other state activities. The taxpayer revolt will make the former increasingly difficult, and the other activities have their strong supporters. The lag in motor fuel levies, for example, by resulting in deteriorating highways, increases the pressure to quit using highway funds for auxilliary activities such as state police and to use general revenue funds for road use. Thus education is almost certain to suffer; the California survey noted above shows summer schools and interscholastic sports to be the ones most favored for cuts, followed by music, art and drama, adult education, and physical education, and administrative expense.

The greater sympathy for education than for many other functions, however, and the recognition that improved education aids economic development of a state and thus the flow of tax revenue may result in special measures to protect education against the overall cuts - but this can occur only by increased state financing. Along with the increased state financing is certain to go increased control over the schools by the states.

The Future

The California revolt was obviously facilitated by several special circumstances. The most important was the very large state surplus of about $5 billion. Secondly, property values had been rising rapidly and assessments were keeping up with them, with little change in tax rates. It was reported that in 1978, the average increase in assessed values of homes was 120%. Thirdly, it can be argued that California voters are politically particularly volatile.

In most other states the situation is different. Several states do have surpluses - Washington, Wisconsin, and Texas, for example. But the states as a whole do not have any significant surpluses, so that unlike California, the cutbacks at the local level cannot be averted for a year or so by distribution of state surpluses. In many states, property tax bills have not been rising substantially, and usually not at all in real terms. But the bandwagon effect is significant; the Wall Street Journal reports that governors have proposed an overall tax revenue cutback of more than $5 billion in 1979-80 budgets.[1] The Journal indicates that 36 states will consider amendments to their constitutions and other measures to restrict state-local spending. In addition, many states are consideraing reductions in various taxes, and particularly the property tax. Many of the proposals are relatively innocuous, some merely designed to distribute surpluses built up from rapidly rising income tax yields. Some have positive merits, such as exemption of medicines and industrial machinery from state sales taxes. But others go much farther, some freezing property taxes at existing levels - a measure that has very little justification because of changing relative property values. In many states, of course, there are no direct initiative and referendum measures, and voters can restrict legislative powers only through constitutional amendments, a much slower process. But governors and legislature can act quickly if they wish.

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[1] Feb. 16, 1979.

## Conclusion

The hazards of the tax revolt for education as well as for other basic state and local government functions are obvious. How serious they will prove to be remains to be seen. The bandwagon is rolling at full tilt, politicians leaping on at each opportunity. But the bandwagon may overturn - as the consequences of drastic tax reduction become apparent in reduced services that people want and the loss of competent personnel. In a paper given at the 1978 Annual Conference of the Canadian Tax Foundation, Richard Musgrave offered serveral suggestions to lessen the dangers. The following to some extent parallel his, but by no means fully:

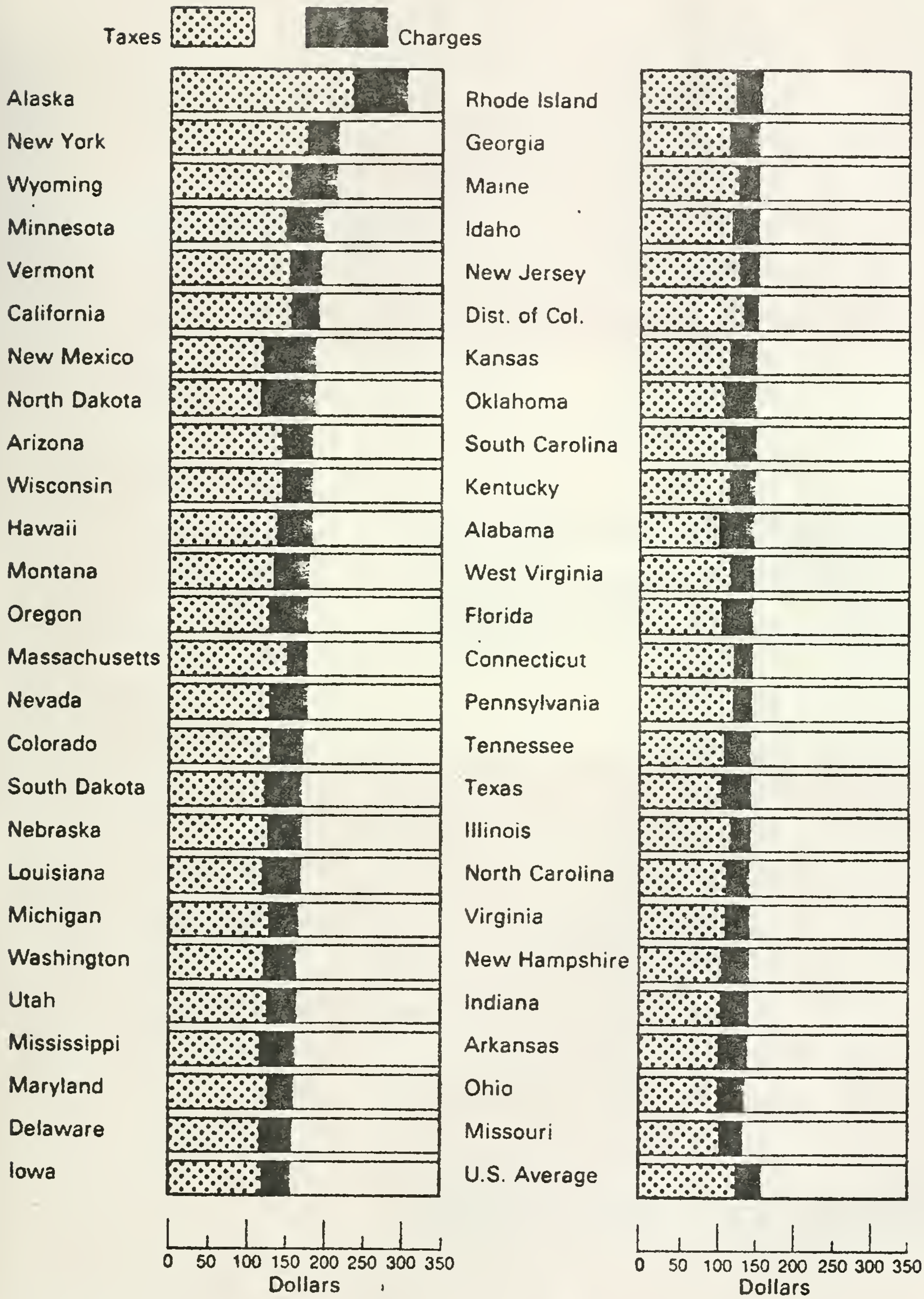
1. Avoid sharp increases in property tax assessments. However meritorious the policy that assessments should keep pace with property values may be in principle, it can be disastrous politically.
2. Take measures to offset automatic increases in tax yields that run well in excess of inflationary trends. The simplest solution is to index the state income tax.
3. Replace specific rate levies by ad valorem levies. It is very doubtful that the voters as a whole have preferred that the tobacco, and liquor and motor fuel taxes, the ones most widely accepted, decline for a decade in real terms - but this has occurred.
4. Avoid state surpluses of any substantial magnitude.
5. Do not facilitate initiative and referendum measures at the state level, even though these appear to be "democratic".

They lend themselves to demagoguery; they prevent coalitions that compromise and balance the interests of various groups; they lead to irrationality; they encourage single-issue voting.

6. All levels of government should seek to minimize petty annoyances; balance benefits and costs of various regulatory measures; and ensure that the appropriate protection of the rights of minorities does not go so far as to produce serious backlash. In the end the majority will must prevail - and there are no absolute rights in this world.

7. Given the obvious sympathy of votes for education over most other state-local functions, seek to protect it aginst the meat axe by special allocated funding at the state level.

**... and Charges ... \$1,000 of Personal Income, by State, 1977**
**(... to Low — Taxes and Charges)**




Source: ACIR staff, based on U.S. Bureau of the Census, *Governmental Finances in 1976-77*

Reproduced from Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1978-79 (Washington:1979), Figure 6.